



Australian Government
Department of Education

ECEC Market Strategy

A Strategic Plan for the Department of Education
for 2023-2026





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The document must be attributed as the ECEC Market Strategy.

Any data referred to within this document any supporting documents is recent to 2022 only.

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Executive Summary

This Strategy considers the role of the Department of Education in shaping activity within the market for Child Care Subsidy (CCS) services, and in enabling the system outcomes supported through Early Childhood Education and Care (ECEC).

Within the ECEC sector, the primary role of the Department of Education (the department) is to assist families with the cost of child care through the CCS under Family Assistance Law (FAL) and the provision of preschool indirectly through the Preschool Reform Agreement. This activity has largely supported the department in pursuing improved affordability of ECEC for families (as per Outcome 1 in the department's corporate plan).¹

The COVID-19 pandemic placed significant pressure on the ECEC system and saw the Australian Government's role expanded, to intervene in the market to guarantee the availability of care. Following these disruptions, and in anticipation of a series of major policy reviews in the sector, there is a timely opportunity to consider the roles, responsibilities, functions, and direction of the department with respect to the CCS market.

This Strategy applies the principles of system and market stewardship (currently topical across the sector) to examine the current role played by the department and identify opportunities for more active leadership across the system.

The Market Strategy is informed by broad sector consultation to assess the current challenges in the ECEC market and identify potential opportunities for improvement.

The consultation series gathered views from 200 sector stakeholders on perceived gaps in stewardship, coordination, and leadership across the ECEC sector and the CCS market.

This included collecting reflections from families, providers and government on issues or shortcomings in the systems' performance and receiving stakeholders' suggestions about opportunities to improve the management of the market.

These opportunities were explored with reference to data collected through the Child Care Subsidy System (CCSS) and by the Australian Children's Education and Care Quality Authority (ACECQA), and literature on the current state of accessibility, affordability, and quality in the sector. It should be noted that data analysed within this Strategy relies on historical data available at the time of its development, from various sources, and limited to 2022 in its recency.

The Strategy identifies current challenges in the ECEC market, which motivate coordinated interventions across government agencies.

This research revealed the contemporary challenges in ECEC, which set the context for the opportunities explored in this Strategy. These challenges include:

- **limited data collection or data-sharing** to ensure sufficient breadth or depth of information is available to market actors about families' needs.
- **uncertainty between stakeholders as to the roles and responsibilities of system actors** in a complex regulatory environment – including the roles of different government agencies on issues including workforce and thin markets.

¹ Australian Government Department of Education, '2022-23 Corporate Plan – Department of Education' (2023), < <https://www.education.gov.au/about-department/resources/202223-corporate-plan-department-education>>.

- critiques of **quality measures** in ECEC as variable; narrowly focused on compliance, rather than service improvement and suitability; and subject to delays in the quality ratings.
- limited access to **quality service provision** in regional and remote areas and in areas of lower socioeconomic status.
- challenges in access to and affordability of care for families with **non-standard care needs**, including for out-of-hours services and outside of centre-based options.
- limited access to **suitable and inclusive services** for some communities, including for First Nations communities, culturally and linguistically diverse groups, or for children with disabilities.
- a lack of **transparency** over variable out-of-pocket fees for families, which hinders choice and affordability.
- limited **visibility and oversight of the provider market**, including an approval process for providers which does not currently account for the existing level of supply in a given location.
- issues with **connectedness between ECEC and other public service systems**, such as the interface with ECEC, the National Disability Insurance Scheme (NDIS) and other public services, for example, healthcare.
- ongoing **workforce shortages**, including challenges attracting and retaining qualified teachers and educators, with flow-on impacts for service capacity and quality.

In framing the opportunities to strengthen market management, this Strategy provides a view of objectives for the early learning system and the role of the department in supporting them.

The consultation and strategy development involved shaping a shared definition of the outcomes which the CCS market seeks to achieve. These outcomes and objectives provide an analytical foundation for the Strategy and are used to develop the opportunities for the department to maximise the effectiveness of the CCS.

- **The system outcomes** reflect the intended contributions of the ECEC to the Australian community: supporting child development and educational outcomes and enabling workforce participation for families with children.
- **The system objectives** articulate the desired (and necessary) aspirations of the ECEC system to deliver on the overall outcomes. That is, children's participation in ECEC is reliant on a system where provision is accessible, affordable and of high quality, which is connected to other public services, is financially and operationally sustainable over time and is equitable, in which all children are supported to succeed, regardless of their circumstances and abilities.
- A series of **preconditions** articulate the necessary characteristics for the CCS market to support access, affordability, and quality for users.
 - On the demand side, these conditions are that families are empowered by funding mechanisms, informed about their care options, and are supported, facing minimal non-economic costs or barriers to accessing care.
 - On the supply side, the conditions are that providers are financially and operationally viable, competitive on price and quality, and accountable to deliver the services which they receive subsidies for.
- These conditions can be mapped to **market levers** – funding, regulation, policy change, information sharing, integration with other actors, and the direct provision of services – to inform approaches to government intervention.

Informed by these objectives, this Strategy outlines opportunities for stewardship across five 'strategic opportunity' phases.

The five phases represent different types of interventions and improvements and consider the need to sequence activity to account for contingencies between opportunities. The five strategic opportunities together comprise 15 detailed policy options (Figure 1) which propose pursuing:

1. Coordination and clarity on current market interventions
2. A comprehensive evidence base to inform market shaping
3. A view on the effectiveness of policy settings
4. A set of reforms to funding model design
5. An evolution in the scope and purpose of the CCS

In establishing a roadmap to act on these opportunities, it will be critical that the department continue to respond to an evolving policy landscape.

The opportunities and supporting analysis contained in the Strategy is intended to provide an evidence base and set of information to assist the department in briefing Government on the key decisions to be made and potential options at their disposal.

These opportunities provide a high-level vision for reform, though are not intended to represent a roadmap or operational plan for the department.

Establishing a position on each of these opportunities and their implementation will require the department to continue to monitor changes in the ECEC ecosystem, including the impact of an Early Years Strategy, the Australian Competition and Consumer Commission (ACCC) Price Inquiry and the Productivity Commission Inquiry, on its objectives, context, and priorities.

1. Background

1.1 Purpose and Audience

This Strategy provides a plan for the stewardship of ECEC Markets by the Australian Government Department of Education (the department) over the short-to-medium term (2022-25). The Strategy acts as both a restatement or codification of the activities that the department is currently undertaking as a market steward, along with identifying areas where the department may consider adopting a different or more active approach. This Strategy has been developed in parallel to a Market Monitoring Framework, which intends to provide more granular analysis on the performance of the market and provide a framework on how it can be assessed going forward.

While this Strategy has been informed by a wide range of research, consultation, data analysis and economic theory, it is intended to be accessible and avoid overly technical discussions. As such, much of the supporting detail and evidence that has been developed is not included in the Strategy but is instead presented in the supporting documents and appendices.

This document is intended for a limited internal audience and is not designed for wider publication or distribution outside of the department and ministerial offices. In some circumstances, it may be suitable for parts of the Strategy to be shared with trusted partners including other Australian Government or state and territory departments. Care should be taken when sharing aspects of the Strategy given the potentially sensitive nature of the content.

1.1 Scope, Strategic Context and Limitations

1.1.1 Scope

The Strategy focuses on the stewardship of **ECEC Markets**. This is defined as ECEC markets that are regulated by the National Quality Framework (NQF) and Family Assistance Law (FAL), including, Centre-Based Day Care (CBDC), Outside School Hours Care (OSHC), Family Day Care (FDC) and In Home Care (IHC). The strategy focuses on the activity of Child Care Subsidy (CCS) approved providers and does not explicitly examine informal care markets of any type (Figure 2). Further information on these regulatory structures and specific care types is provided in **Chapter 2**.

Figure 1: Structure of ECEC Markets



*In Home Care (IHC) is only regulated in TAS and SA.

The Strategy may partially explore, but is not intended to focus on, adjacent issues, such as those relating to workforce, preschool, non-CCS approved providers or the roles of state and territory governments. These topics have only been examined where they are inextricably connected to focus areas, or where they were consistently highlighted by stakeholders during consultations.

1.1.2 Strategic context

The ECEC system is currently undergoing a period of considerable change driven by a growing recognition of the importance of the sector in delivering educational and economic (workforce participation), the shifting roles of system actors and the acute disruption of the COVID-19 pandemic laying bare the importance of workforce participation and the delivery of essential services as a social safety net. Beyond this, there has been a pivot in the discourse within the sector with growing calls for a stewardship approach to coordinate and manage the actions of different system actors.

The responses to the environment by system actors have been significant and varied – both in terms of increasing the size of financial commitments as well as adopting new responsibilities.

The Australian Government has signalled its intent for further policy development including an Early Years Strategy to create a more integrated and holistic approach to early years interventions, a comprehensive inquiry into Australia's ECEC system by the Productivity Commission (PC) and a price inquiry by the Australian Competition and Consumer Commission (ACCC) into the costs and prices of child care.^{2,3}

² Department of Social Services, 'Early Years Strategy' (2022), <<https://www.dss.gov.au/families-and-children-programs-services/early-years-strategy>>.

³ Australian Competition and Consumer Commission, 'Childcare inquiry' (2022), <<https://www.accc.gov.au/focus-areas/inquiries-ongoing/childcare-inquiry>>.

State and territory governments are seeking to intervene in their ECEC systems, with the primary objectives of increasing the volume of provision and addressing market failures. In June 2022, the Victorian and New South Wales Governments announced a 'Joint Commitment to Transform Early Education' in which they committed to providing an additional year of play-based learning for all children before they go to school.⁴ To enable this commitment, both states announced major new funding packages along with targeted workforce and infrastructure initiatives.

The South Australian government has also recently announced a Royal Commission into the ECEC sector aimed at investigating how ECEC can support the first 1,000 days of a child's life and how universal quality preschool could be delivered for three- and four-year-olds in the state.⁵ Beyond this, both the Queensland and Western Australian governments have announced additional funding packages to help attract and retain more ECEC educators and improve equity considerations (such as providing additional funding to support families with children with a disability).^{6,7}

In parallel to these broader system changes, the COVID-19 pandemic has placed significant pressure on the ECEC system and required the department to intervene to ensure the financial sustainability of providers in certain circumstances. For example, in local government areas identified as COVID-19 'hotspots' in 2021, providers received payments of 25 per cent of their pre-lockdown revenue, while the department also introduced a gap fee waiver, and allowed the CCS to continue even when children were not attending.⁸ This temporary and exceptional measure by the department has posed broader questions as to what the department's ongoing responsibilities and obligations are to promote accessibility.

Given the dynamic nature of this policy landscape, this Strategy is centred on applying market stewardship principles that can be drawn on to consider opportunities to improve the management of the CCS system. This approach has been adopted to ensure that the Strategy is practical and has enduring value regardless of the policy landscape.

1.1.3 Limitations

This Strategy has several key limitations, including that:

- The stakeholder consultations conducted as part of the Strategy took place during a period of considerable change in the sector, both before and after the 2022 Federal Election. Consequently, the information collected as part of this process represents a point-in-time assessment of the ECEC sector, noting that aspects of the sector have likely changed since this process was completed, including changes to the Child Care Subsidy and Hourly Rate Caps.
- Several other ECEC strategies and reviews are being developed in separate processes parallel to this Strategy (as noted above). This Strategy has not been able to ascertain what implications (if any) these pieces of work may have on the future of the sector or this Strategy.

⁴ Premier of Victoria, 'Joint Commitment to Transform Early Education' (2022), <<https://www.premier.vic.gov.au/joint-commitment-transform-early-education>>.

⁵ Royal Commission into Early Childhood Education and Care, 'Terms of reference' (2022), <<https://www.royalcommissionecec.sa.gov.au/what-is-the-royal-commission/about>>.

⁶ The Queensland Cabinet and Ministerial Directory, 23 February 2022, <<https://statements.qld.gov.au/statements/94528>>.

⁷ Western Australian Government Media Statements, 'Industry partnership to grow early childhood education and care workforce' (2022), <<https://www.mediastatements.wa.gov.au/Pages/McGowan/2022/10/industry-partnership-to-grow-early-childhood-education-and-care-workforce.aspx>>.

⁸ Department of Education, 'Targeted assistance for child care services during COVID lockdown' (2021), <<https://ministers.dese.gov.au/morrison/targeted-assistance-child-care-services-during-covid-lockdown#:~:text=Child%20care%20services%20in%20Commonwealth,payments%20of%2040%20per%20cent.>>.

- This Strategy provides high level strategic but not operational advice to the department. While certain implementation considerations are mentioned in the opportunities analysis, it is anticipated that further research, consultation, and planning would be required prior to implementing any of these initiatives.

1.2 Structure of this Strategy

This document is structured into five substantive Chapters:

- **Chapter 2 'The Role of Government in Early Childhood Education and Care Markets'** introduces the concepts of system and market stewardship, provides contextual information on the ECEC market in Australia, and clarifies what the role of Government should be in ECEC Markets.
- **Chapter 3 'Establishing Early Childhood Market Goals'** outlines the outcomes and objectives that the sector aspires towards, as well as the preconditions and levers that enable these. This Chapter is the major link between this document and the Market Monitoring Framework.
- **Chapter 4 'Understanding the Functions of Government in Early Childhood Markets'** examines the roles and responsibilities that key actors currently fulfill within the ECEC market, along with commenting on the potential accountability gaps in the market. This Chapter enables readers to understand how their role contributes to the broader system and market goals.
- **Chapter 5 'Identify opportunities to Strengthen and Grow Early Childhood Markets'** represents the culmination of the Strategy, presenting a series of specific stewardship opportunities for the department's consideration.
- **Chapter 6 'Agreeing Next Steps'** provides further detail on the sector developments that need to be monitored going forward to understand if they have implications for the Strategy and a series of considerations for the sequencing of the proposed opportunities.

The Strategy is intended to be navigable by a range of users within its limited audience who may have different interests or uses for the document. For example, readers with a greater interest in strategy may choose to start by understanding the role of government in ECEC Markets (Chapter 2) and the opportunities that have been identified (Chapter 5). Conversely, audiences with a greater interest in understanding the current state of the market may choose to start by understanding the overall goals of the market (Chapter 3) and how the specific functions of actors work towards these (Chapter 4).

2. The Role of Government in Early Childhood Education and Care Markets

Understanding what the role of government is in ECEC Markets is the first step towards identifying what is achievable by the department, what targets should be set and what the best approach is for satisfying the set targets.

This chapter provides important context to the Department of Education's role in ECEC Markets. It provides an overview of the concepts of system and market stewardship, describes the structure of the early childhood landscape and how different actors interact, and provides a conceptual overview of the role of government in early learning.

2.1 Understanding Stewardship

Simply, **stewardship** can be defined as the assigned responsibility for caring for something valuable, both in the present day and with a view to maintaining value over a longer period.⁹ Specific definitions of stewardship functions in public service markets vary. They can range from responsibility for ensuring providers are supported to enter or exit a market to overseeing how a policy is being adapted within a system. They might also include intervening with response strategies as necessary when unforeseen circumstances arise to steer the system back towards the overarching goals of the policy.^{10,11}

Despite the breadth, a common feature of stewardship definitions is that, in contrast to purely market driven or direct delivery policy mechanisms, stewardship presents a larger role for central governments to create value by establishing and **shaping systems or markets** to support collaboration between consumers, governments, and providers, to deliver social impact.¹²

The concept of stewardship as an approach is rising in popularity. In Australian public service markets, concepts of stewardship have guided policy reforms in the care sectors – with a stewardship model applied by the National Disability Insurance Agency (NDIA) in their oversight of the National Disability Insurance Scheme (NDIS) market and proposed as a potential approach in the Aged Care system as part of the recommendations made by the recent Royal Commission into Aged Care Quality and Safety. Internationally, the concept of stewardship is also well recognised and prominent at both a market and system level. For example, the New Zealand Ministry of Education, the leading advisor to the New Zealand Government on education from the early childhood to tertiary levels, is deemed the steward of the education system and plays a vital role in steering the education system towards a defined vision and set of objectives.

2.1.1 System Stewardship

System stewardship is an approach to managing public service markets and is considered an important driver in the contemporary management of public services.¹³ Similar to the degree of variation that exists within the literature relating to stewardship broadly, there is some uncertainty with regards to both the approach of system stewardship and the role of a system steward. However, when considering common properties across evidence sources, it appears that a system steward (often government) does not hold an 'implementation role' but rather one of oversight. In a policy context, system stewardship describes an approach to managing systems comprising of many different actors.¹⁴

While a distinct set of aspects may be consistent across system stewardship models, the type of system, policy conditions and system factors present will ultimately shape the role the system steward conducts.

⁹ Hamilton, 'Stewardship': buzzword, inkblot, or a new way to delivery human services?, *Parliament of Australia* (2016)

¹⁰ Hallsworth, M, System Stewardship: The future of policy making? Working paper, *Institute for Government* (2011)

¹¹ Australian Government, Productivity Commission Inquiry Report Volume 2, *Productivity Commission* (2014)

¹² Mariana Mazzucatto & Josh Ryan-Collins, "Putting value creation back into "public value": From market-fixing to market-shaping", *Institute for Innovation and Public Purpose, UCL* (2019)

¹³ Gardner et al, Issue paper No 4. How can systems thinking enhance stewardship of public services?, *Public Service Research Group* (2019)

¹⁴ Gardner et al, Issue paper No 4. How can systems thinking enhance stewardship of public services?, *Public Service Research Group* (2019)

2.1.2 Market Stewardship

The literature discusses a distinction in the remit of stewardship across a system and a market, however, practically the distinction is less clearly defined, because market mechanisms are usually used to implement one component of a system.

Market stewardship, also referred to as 'market shaping' or 'market steering', is a form of system stewardship that focuses on a subset of public service markets.¹⁵ A market stewardship approach bestows an amount of policy lever control on the market steward. However, they are also influenced by the system steward's design and management of other relevant policy levers such as regulatory frameworks, quality assurance frameworks, workforce management approaches or service delivery. Therefore, it is likely that the market steward will apply a system lens to all decisions and directions made in relation to market activities.

According to public management theory, market-based approaches such as this have the ability to harness the production capacity of the private sector to deliver public benefits. That is, a market-based approach to delivering public services can attract more investment, be more efficient, competitive, and innovative than if the same services were delivered via a centralised government-based approach.^{16,17,18} The approach may also provide a more coherent and coordinated model of managing the complexities present in public service markets.¹⁹

The department is well placed to play a market stewardship role given its ability to directly influence the ECEC market landscape. That is, the provision of the CCS to families via providers gives the department a direct opportunity to manipulate the interactions between providers and consumers and over time shape the design and direction of the market to align with the system objectives.²⁰ Further, a derivative role exists for the department as a system co-steward to ensure sufficient oversight and monitoring of activity beyond the CCS market, including the market's interactions with other aspects of the system.

2.2 The Early Childhood Landscape

Early childhood policy is determined by the Australian and state and territory governments, with national agreements achieved through the National Cabinet.²¹ The department holds the primary funding responsibility, with Family Assistance Law providing the framework for its child care fee assistance, which includes the CCS and the Additional Child Care Subsidy (ACCS).^{22,23}

Under Family Assistance Law, Services Australia is responsible for administering the CCS and ACCS to eligible families to help with the costs of ECEC.^{24,25}

¹⁵ Gash et al, Making public service markets work: professionalising government's approach to commissioning and market stewardship, *Institute for Government* (2012)

¹⁶ Girth et al, "Outsourcing Public Service Delivery: Management Responses in Non-competitive Markets", *Public Administration Review*, (2012)

¹⁷ Institute for Government, *Public Service Markets – A practical guide* <<https://www.instituteforgovernment.org.uk/publication/what-market-stewardship>>

¹⁸ Institute for Government, *Public Service Markets – A practical guide* <<https://www.instituteforgovernment.org.uk/publication/what-market-stewardship>>

¹⁹ Needham et al, Market shaping and personalisation in social care: A realist synthesis of the literature, *University of Birmingham* (2018)

²⁰ Commonwealth of Australia, *Competition Policy Review*, (2015)

²¹ National Cabinet, *Federation* (2022) <<https://federation.gov.au/national-cabinet>>

²² Family Assistance Law, Department of Education (2022), <<https://www.education.gov.au/child-care-package/compliance-child-care/family-assistance-law>>

²³ A New Tax System (Family Assistance) Act (1999)

²⁴ Ibid.

²⁵ Sheppard M, 'Child care in Australia: a quick guide', Parliament of Australia (2015) <https://www.apb.gov.au/about_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp445/Quick_Guides/Childcare>

A mix of for-profit, not for profit and local government ECEC services are provided to children and their families. As part of the service delivery, the CCS and ACCS are paid directly to the ECEC provider. The ECEC service providers are responsible for passing on the CCS, to reduce out-of-pocket fees paid by families.²⁶ The CCS amount ranges from 0 per cent to 85 per cent and varies based on the amount of work or recognised activity each parent or guardian undertakes each fortnight, the combined family income, and the fees paid.^{27,28}

This Strategy focuses on the 'market' component of the system, defined as those providers and services approved to operate a service and administer the CCS. This section provides further information on each of the care types common in the early childhood landscape.

2.2.1 Preschool

Preschools provide early childhood educational programs, delivered by qualified teachers, to children up to two years before commencing primary school (typically aged between 3 and 5 years old).²⁹ Preschools delivered by centre-based providers are regulated under the National Quality Framework (NQF), detailing specific requirements such as minimum educator to children ratios, depending on the number of children at or below preschool age. Dedicated preschools such as standalone or co-located facilities are regulated under separate state or territory frameworks under the NQF. As noted in earlier sections, preschool is not a central focus of this Strategy, although it is recognised as an influential subsystem in ECEC Markets for children of a particular age.

In 2021, there were 339,000 children aged 4 and 5 enrolled in a preschool program, of which half were delivered by centre-based services.³⁰ In the last five years, total enrolment has not seen significant changes, with slight growth of centre-based day care enrolment offsetting an annual 3.6 per cent decline in dedicated preschool enrolments.³¹

2.2.2 Child Care Subsidy Approved Providers

Approved providers, with the exception of In Home Care (IHC) providers, operate under the NQF, consisting of the *Education and Care Services National Law Act 2010* (National Law) and the *Education and Care Services National Regulations 2011* (National Regulations), both of which set national standards to which all states and territories enact their own application acts, except for Western Australia and Victoria.³² Western Australia and Victoria directly apply the NQF, but the latter also enforces its *Children's Services Act 1996*. The NQF sets standards on educational programs, children's health and safety, physical environment, staffing, governance, and relationships with families. IHC is regulated under state-based legislation in South Australia and Tasmania and is regulated by the department (by default) in all other jurisdictions. In addition to this, Family Assistance Law sets out certain conditions that providers must satisfy in order to continue to be approved.³³

²⁶ 'Child Care Subsidy', Services Australia (2022), <<https://www.servicesaustralia.gov.au/child-care-subsidy>>

²⁷ 'Your income can affect it', Services Australia (2022), <<https://www.servicesaustralia.gov.au/your-income-can-affect-child-care-subsidy?context=41186>>

²⁸ 'Child Care Subsidy', Services Australia (2022), <<https://www.servicesaustralia.gov.au/child-care-subsidy>>

²⁹ 'Guide to the National Quality Framework', Australian Children's Education & Care Quality Authority (2022), <<https://www.acecqa.gov.au/sites/default/files/2022-05/guide-to-the-NQF-220511-compressed.pdf>>

³⁰ 'Preschool Education, Australia', Australian Bureau of Statistics (2022), <<https://www.abs.gov.au/statistics/people/education/preschool-education-australia/latest-release>>

³¹ Australian Bureau of Statistics, above n. 29.

³² 'National Law', Australian Children's Education & Care Quality Authority (2022), <<https://www.acecqa.gov.au/nqf/national-law-regulations/national-law>>

³³ 'Conditions for continued approval', Australian Government Department of Education (2023), <<https://www.education.gov.au/child-care-package/child-care-provider-handbook/appendix-e-compliance/conditions-continued-approval>>

For example, providers must continue to satisfy the provider eligibility rules, comply with all relevant Commonwealth and state or territory laws, operate for at least the minimum period of each year, and all staff members must hold working with children cards.³⁴ The CCS and ACCS are only available for children attending an approved childcare provider.

2.2.2.1 Centre-Based Day Care

Centre-based day care (CBDC) services provide ECEC, predominantly servicing non-school-aged children between the ages of 0-5 years old.³⁵ Aside from approved providers, exemptions under the *Child Care Subsidy Minister's Rules 2017* (Minister's Rules) are available for this care type.³⁶ The care type operates a minimum of 48 weeks per calendar year and served around 817,000 children between the ages of zero to 12 in 2021, or just under two-thirds of all children attending CCS approved providers.³⁷

Both attendance numbers and average weekly hours of attendance have grown in the last five years, by an annual average of 3.8 per cent and 2.1 per cent respectively, indicating strong market growth.³⁸ In the third quarter of 2021, mirroring other care types, approximately three quarters of its attendees were in major cities, which is broadly reflective of the distribution of Australia's population more generally.³⁹ In the same period, \$2.1 billion or 84 per cent of the combined CCS and ACCS payments were claimed by centre-based day care providers.⁴⁰

Stakeholder consultations with providers and policymakers suggest that both CBDC and OSHC providers often concentrate in comparatively high socioeconomic metropolitan areas as families can typically afford higher fees and demand is consistently strong. This creates a risk that families from lower socio-economic backgrounds may not face equitable access to the benefits of ECEC.

2.2.2.2 Outside School Hours Care

In contrast to centre-based day care services, outside school hours care (OSHC) provides care primarily to school aged children outside of school hours such as before school, after school and during school holidays.⁴¹ It operates a minimum of seven weeks per calendar year and the same regulatory frameworks apply.

Among all CCS approved providers, 466,000 or one third of children attended an OSHC service in 2021.⁴² In the last five years, attendance has grown by an average of 6 per cent but average weekly hours have decreased by 5 per cent, with a notable 4 per cent decline in attendance in 2021.

³⁴ Ibid.

³⁵ Services Australia, above n. 24.

³⁶ Services Australia, above n. 24.

³⁷ 'Report on Government Services', *Productivity Commission* (2022), <<https://www.pc.gov.au/ongoing/report-on-government-services/2022/child-care-education-and-training/early-childhood-education-and-care>>

³⁸ Productivity Commission, above n. 34.

³⁹ 'September quarter 2021 report', *Australian Government Department of Education* (2021), <<https://www.education.gov.au/child-care-package/early-childhood-data-and-reports/data-usage-services-fees-and-subsidies/september-quarter-2021-report>>

⁴⁰ Australian Government Department of Education, above n. 36.

⁴¹ Services Australia, above n. 25.

⁴² Productivity Commission, n. 34.

Due to its limited operating times, OSHC attendees average 10 hours per week, which is less than half compared to all other care types. OSHC received 9 per cent of subsidies available and has a larger uptake in major cities of 81 per cent as compared to 76 per cent for CBDC.⁴³

2.2.2.3 Family Day Care

Family Day Care (FDC) services typically operate in the home of an educator for a minimum of 48 weeks per calendar year and are also regulated under the FAL.⁴⁴ In 2021, it serviced only 94,000 or 7 per cent of all children attending CCS approved child care providers. In the last five years, FDC has seen consistent declines in attendance at an average 15 per cent per year.⁴⁵

Average weekly hours have also declined by an average of 5 per cent since 2017. It has the highest regional uptake, excluding In Home Care, with 30 per cent of attendees located outside major cities.⁴⁶ FDC services receive similar amounts of subsidies as outside school hours care, claiming \$190 million or 7 per cent of total subsidies in the third quarter of 2021.⁴⁷ An average FDC services twice the number of children per year as compared to all other service providers.⁴⁸

In recent years, there have been a small number of high-profile cases of fraud against the FDC program. For example, in 2020 it was found that three co-conspirators had defrauded the Australian Government of more than \$9 million by falsely claiming childcare benefits for care sessions that were never provided.⁴⁹

2.2.2.4 In Home Care

In Home Care (IHC) offers flexible options where other care types are not appropriate or available and are typically provided in the child's home by an educator. Eligibility criteria may include parents or carers working non-standard hours, challenging needs, or geographically isolated families such as rural or remote regions.⁵⁰

IHC is the smallest care type, serving just two thousand children in 2021, or less than 1 per cent across all care types.⁵¹ Prior to the COVID-19 pandemic, service volumes were declining by around 25 per cent per year but has since seen growth at an annual average of 5 per cent in 2020 and 2021.⁵² Average weekly hours declined between 2017 to 2021 by an average of 1 per cent, noting that a new IHC program was implemented in July 2018.⁵³

Consultations with ECEC service providers and peak bodies suggest that there can be a wide range of commercial and regulatory barriers to operating IHC and FDC services. Specifically, ECEC regulation can be an obstacle to operating IHC and FDC services (which are common in more remote areas). For example, existing guidelines for IHC restrict an individual from being able to care for multiple

⁴³ Australian Government Department of Education, above n. 36.

⁴⁴ Services Australia, above n. 24.

⁴⁵ Productivity Commission, n. 34.

⁴⁶ Australian Government Department of Education, above n. 36.

⁴⁷ Australian Government Department of Education, above n. 36.

⁴⁸ Productivity Commission, n. 34.

⁴⁹ CDDP, 'Family day care fraud prosecuted' (2020), <<https://www.cdpp.gov.au/case-reports/family-day-care-fraud-prosecuted#:~:text=Three%20co%2Dconspirators%20defrauded%20the,distance%20themselves%20from%20the%20fraud.>>

⁵⁰ Services Australia, above n. 24.

⁵¹ Productivity Commission, n. 38.

⁵² Productivity Commission, n. 38.

⁵³ Australian Government Department of Education, above n. 40.

families' children at the same time, even if they all reside in the same location. In addition, the substantial personal liability risk associated with IHC at the provider level and FDC at the educator level can create an unattractive value proposition for prospective providers. These regulatory restrictions create a risk that these flexible care types are not always a viable option for prospective providers.

2.2.3 Early Learning Workforce

While workforce issues are not a core focus of this Strategy, there was a near consensus among providers and peak bodies during stakeholder consultations that workforce shortages are among the most pressing issues facing the sector. Stakeholders consistently highlighted their inability to recruit suitable staff, and the negative impact this has on their ability to operate high-quality services in a diverse range of settings. Stakeholders also emphasised how closely connected workforce issues are to the overall operation of the ECEC system and promoting other objectives such as access and quality. That is, having a highly skilled, diverse, and motivated workforce is a necessary precondition to delivering quality education to children around the country. These comments also align with findings from a range of academic sources and the recent ECEC workforce strategy by all governments and ACECQA, which was developed on the premise that a qualified, stable, and supported workforce is vital to the provision of high quality ECEC services and positive system outcomes.^{54,55}

A range of government reports and independent research projects have highlighted the challenges that the ECEC sector faces in attracting and retaining the workforce that it requires.^{56,57,58} Data collected by ACECQA suggests that the share of services holding a staffing waiver due to an inability to meet staffing requirements has increased to 6.7 per cent in 2021, from 4.5 per cent in 2019. Further, shortages appear to be most acute outside of major metropolitan regions, with approximately 10 per cent of services in outer regional, remote and very remote areas of Australia holding a temporary waiver for one or more of the staffing requirements under the NQF.⁵⁹

Stakeholders also noted that these workforce issues appear to span across the sector, manifesting as both a weak pipeline of people entering the sector and low retention rates. This observation appears to align with data from the National Centre for Vocational Education and Research (NCVER) which reveals that from 2015 to 2021, commencements in Certificate III and Diploma ECEC programs have decreased by 29 per cent and 68 per cent respectively, indicating a substantial reduction in the volume of newly qualified educators (see Figure 3).

Retention issues appear to be driven by a wide range of factors, including limited opportunities for career development and progression, uncompetitive wages, high levels of personal responsibility and challenging working conditions.^{60,61,62}

⁵⁴ Fenech et al. (2021). Attracting, retaining and sustaining early childhood teachers: An ecological conceptualisation of workforce issues and future research directions. *Australian Educational Researcher*.

⁵⁵ ACECQA. (2022). *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022–2031* ([acecqa.gov.au](https://www.acecqa.gov.au))

⁵⁶ O'Connell et al. (2016). *Quality Early Education for All* (vu.edu.au)

⁵⁷ Jackson. (2020). Every educator matters: Evidence for a new early childhood workforce strategy for Australia. Mitchell Institute, Victoria University

⁵⁸ ACECQA. (2022). *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022–2031* ([acecqa.gov.au](https://www.acecqa.gov.au))

⁵⁹ Ibid

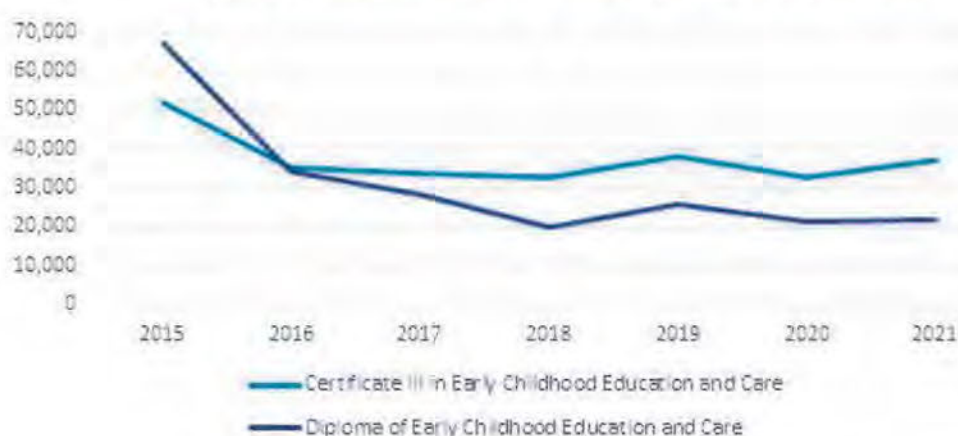
⁶⁰ O'Connell et al. (2016). *Quality Early Education for All* (vu.edu.au)

⁶¹ Jackson. (2020). Every educator matters: Evidence for a new early childhood workforce strategy for Australia. Mitchell Institute, Victoria University

⁶² ACECQA. (2022). *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022–2031* ([acecqa.gov.au](https://www.acecqa.gov.au))

These findings align with those from the stakeholder consultations, where providers and peak bodies frequently commented on the challenges associated with losing experienced staff members.

Figure 2: Commencements in VET ECEC qualifications, 2015-2021



Source: National Centre for Vocational Education and Research (NCVER) data (2022)

There is a concern that the ECEC workforce does not receive sufficient recognition, and that this lack of recognition contributes to the sector's workforce issues. This point was consistently highlighted by peak bodies and providers during the stakeholder consultation process, who noted that the public often fails to appreciate the educational value of the sector, and views it as solely being about providing care to children and enabling greater workforce participation for parents.

This finding was also highlighted in the National Children's Education and Care Workforce Strategy, which emphasised the need to raise the sector's professional recognition, including professional standing, pay and conditions, registration and community perceptions and values.⁶³ The Workforce Strategy also advocates for a national communication campaign to educate Australians of the pertinent role of ECEC teachers and educators, and encourage a change in terminology from 'child care' to 'ECEC' and 'child care workers' to 'educators' to help build professional recognition.⁶⁴

Relatedly, during stakeholder consultations several providers and peak bodies suggested that lifting the minimum qualification requirements could help enhance the reputation of the sector and encourage greater career progress and remuneration. However, consultees also noted the connection between raising workers' qualifications and pay and families' inability to pay higher fees for services. Similarly, the Productivity Commission has noted how excessively raising qualification standards would reduce the pool of qualified workers and could therefore exacerbate labour shortages.⁶⁵ This suggests that in considering changes to lift professional standards, it is essential to strike a balance between driving workforce quality and ensuring the sector is sufficiently resourced to provide affordable care for families.

⁶³ ACECQA. (2022). *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022–2031* (acecqa.gov.au)

⁶⁴ Ibid

⁶⁵ Productivity Commission (2015). <https://www.pc.gov.au/inquiries/completed/childcare/report>

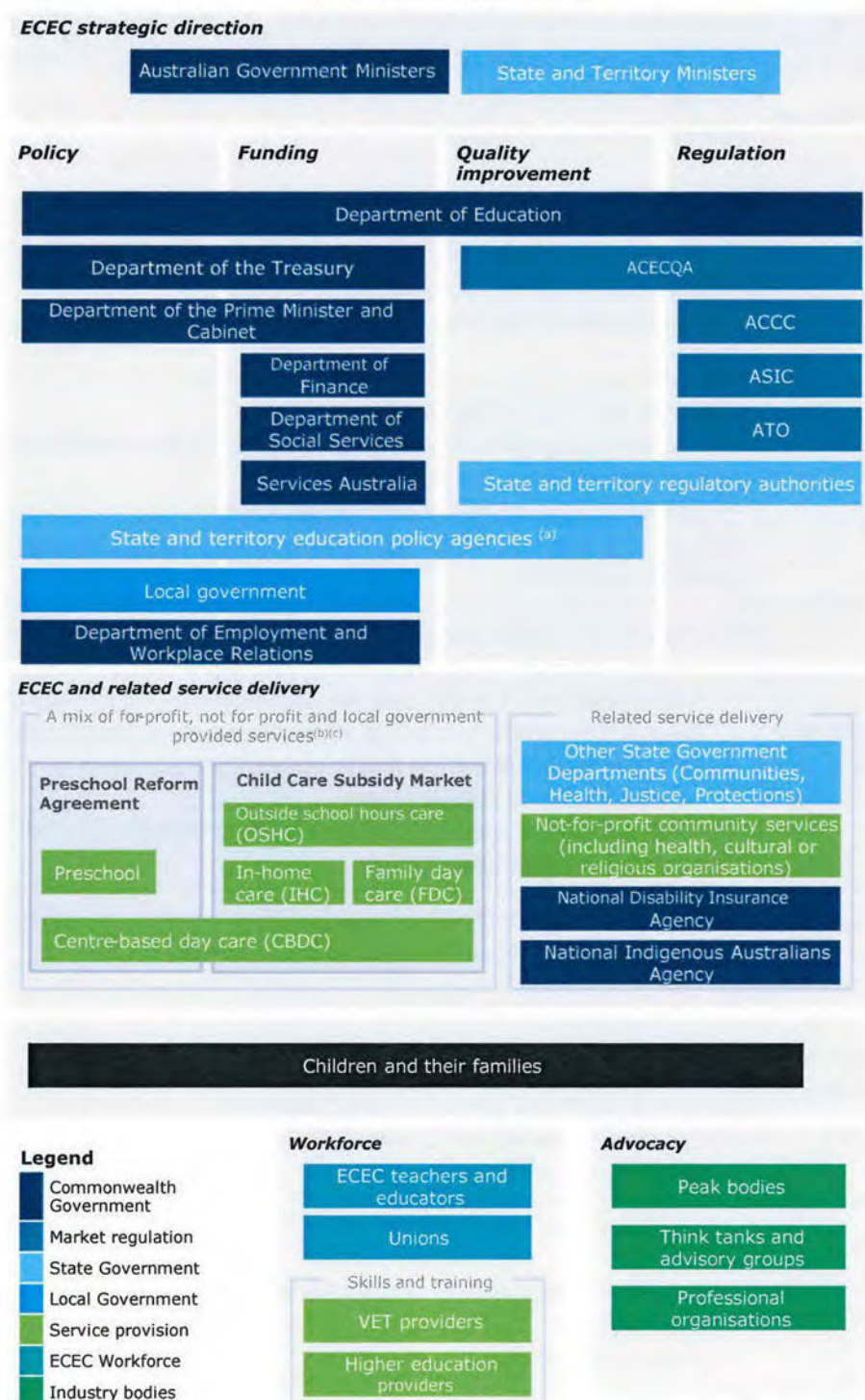
2.3 The Early Childhood System Map

The map of system actors provides an overview of all the actors in the ECEC system. The system map in Figure 4 is divided into nine domains which group actors by their high-level responsibilities. These domains include:

- **ECEC strategic direction** which is provided by governments at a federal and state and territory level.
- **Funding** which captures all agencies that fund ECEC services, including the government departments which provide subsidies to families and children.
- **Policy** which captures agencies that set ECEC policy or assist in service planning. ECEC policy is set by the Australian and state and territory governments, with national agreements achieved through the National Cabinet.
- **Regulation** which recognises the regulatory role of state and territory governments and Australian Government agencies such as the ACCC and ASIC play in monitoring and ensuring providers' compliance with their regulations and business responsibilities.
- **Quality improvement** which centres around the core agencies of ACECQA, the Department of Education, and the state and territory policy and regulatory authorities, as well as other supporting Australian Government agencies.
- **ECEC and related service delivery** which capture the 'delivery' component of the sector, including both providers and the aligned services for families provided by the Government and other agencies alongside or integrated within ECEC.
- **Advocacy** which includes peak bodies, think tanks, and advisory bodies which undertake research and advocacy on behalf of families, providers, workforce, and/or the sector as a whole
- **Workforce** which captures teachers and educators, the unions which represent their interests, and the Vocational Education and Training (VET) and higher education providers that ensure they are appropriately qualified to work.
- **Children and their families** which captures those who access ECEC services.

There are numerous ways in which the relationships between these system actors can be linked – especially once variation in the scope of different agencies across jurisdictions is considered. As such, Figure 4 is accompanied by Table 1 which sets out each system actors' role in the ECEC sector.

Figure 3: ECEC System Map



Notes: (a) Not all jurisdictions have separate Education Policy Agencies and Regulatory Authorities. For example, in NSW the Department of Education is both the policy agency and the regulatory authority. In WA, the education policy agency is the Department of Education WA, while the regulatory authority is the Department of Communities.

(b) The market share of different care types varies across jurisdictions (see Table 0.3 in Supporting Documents)

(c) In some states, local governments support provision planning and fund infrastructure, while in others, local governments own and operate providers.

Table 1: System actors' role in the ECEC sector

System actor	Role in ECEC sector
National Cabinet	The National Cabinet addresses priority national federation issues, including agreement on policy reform. ⁶⁶
Australian Government ministers	Australian Government ministers are: <ul style="list-style-type: none"> • Responsible for their relevant portfolio, including the development of government policy and legislation • Accountable for the actions of their department.⁶⁷
State and territory ministers	State and territory ministers are: <ul style="list-style-type: none"> • Responsible for relevant portfolio, including the development of government policy and legislation. • Accountable for actions of their department Relevant ministers include the ministers of the education policy agencies and regulatory authorities.
Department of Education	The department's key responsibilities include: <ul style="list-style-type: none"> • Financial assistance to eligible families to help with the costs of ECEC; • Administration of the CCS program, including the provider approvals and the provision of a CCS Helpdesk which deals with family provider queries; • Operational and capital funding to certain ECEC providers, and to support the provision of quality care; and • Funding for State and Territory Governments through national partnership agreements.⁶⁸
Department of Treasury	The Treasury develops the Federal Government's budget, including funding for Education portfolio and changes to financial assistance. ⁶⁹
Department of Prime Minister and Cabinet	The Department of Prime Minister and Cabinet provide advice and support to the Prime Minister, the Cabinet, Portfolio Ministers and Assistant Ministers to achieve a coordinated approach to the development and implementation of Government policies. The department coordinate and develop policy across the Government in economic, domestic and international issues and public service stewardship. ⁷⁰
State and Territory education policy agencies	State and Territory Governments' child care responsibilities vary but may include: <ul style="list-style-type: none"> • Providing operational and capital funding to non-government service providers • Delivery of services;

⁶⁶ 'National Cabinet', *Federation* (2022) <<https://federation.gov.au/national-cabinet>>

⁶⁷ Department of the House of Representatives, *House of Representatives Practice* (2018), 7, <https://www.aph.gov.au/About_Parliament/House_of_Representatives/Powers_practice_and_procedure/Practice7/HTML/Chapter2/The_Ministry>

⁶⁸ Sheppard M, 'Child care in Australia: a quick guide', *Parliament of Australia* (2015)

<https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1415/Quick_Guides/Child_care>

⁶⁹ 'About Treasury', *Commonwealth Department of Treasury* (2022), <<https://treasury.gov.au/the-department/about-treasury>>

⁷⁰ 'The Department', *Department of Prime Minister and Cabinet*, (2022), <<https://www.pmc.gov.au/who-we-are/the-department>>

System actor	Role in ECEC sector
	<ul style="list-style-type: none"> • Providing information, support, training, and development opportunities for providers; and • Providing curriculum and policy support and advice, as well as training and development for management and staff ⁷¹
Local government	<p>Local governments' ECEC responsibilities vary but include:</p> <ul style="list-style-type: none"> • Provision planning of early childhood education and care (including land use planning and leasing of council premises); and • Direct service provision⁷²
Department of Employment and Workforce Relations	<ul style="list-style-type: none"> • The Department of Employment and Workforce Relations responsible vary but include funding VET providers to training ECEC teachers and educators
The Department of Finance	The Department of Finance administers revenue, grant, and subsidy schemes. ⁷³
DSS	<p>The Department of Social Services' key ECEC responsibilities include:</p> <ul style="list-style-type: none"> • Development of children's programs and services; and • Coordination early childhood development policy⁷⁴
Services Australia	Services Australia administers the CCS and ACCS. CCS is paid directly to the child care provider to reduce families' out-of-pocket costs s. ⁷⁵
ACECQA	<p>ACECQA works with the Australian Government and State and Territory Governments to:</p> <ul style="list-style-type: none"> • Implement changes that benefit children birth to 13 years of age and their families; • Monitor and promote the consistent application of the Education and Care Services National Law across all states and territories; and • Support the children's education and care sector to improve quality outcomes for children.⁷⁶
State and Territory Regulatory authorities	<p>State and Territory Governments' regulatory agencies' responsibilities vary but may include:</p> <ul style="list-style-type: none"> • Assesses applications for provider approvals, service approvals; • Assesses and rates education and care services against the National Quality Standard; • Supports and promotes continuous quality improvements in education and care services; • Investigates incidents and complaints; and • Monitors and enforces compliance with the NQF.⁷⁷

⁷¹ Sheppard M, n 4.

⁷² NSW Department of Education, 2020 COVID-19 Local Government Early Childhood Education and Care payment program guidelines (2020) <<https://education.nsw.gov.au/early-childhood-education/operating-an-early-childhood-education-service/grants-and-funded-programs/covid-19-local-government>>

⁷³ 'About Finance', Australian Department of Finance (2022), <<https://www.finance.gov.au/about-us/department>>

⁷⁴ Ibid.

⁷⁵ 'Child Care Subsidy', Services Australia (2022), <<https://www.servicesaustralia.gov.au/child-care-subsidy>>

⁷⁶ 'About Us', The Australian Children's Education and Care Quality Authority (2022), <<https://www.acecqa.gov.au/about-us>>

⁷⁷ 'Contact your regulatory agency', The Australian Children's Education and Care Quality Authority (2022), <<https://www.acecqa.gov.au/help/contact-your-regulatory-authority>>

System actor	Role in ECEC sector
ACCC	<p>The ACCC's role in monitoring public service markets includes:</p> <ul style="list-style-type: none"> • Maintaining and promoting competition; • Protecting the interests and safety of consumers, and supporting fair trading in markets affecting consumers and small business; • Promoting the economically efficient operation of, use of, and investment in infrastructure and identifying market failure; and • Undertaking market studies and inquiries to support competition, consumer, and regulatory outcomes.⁷⁸ <p>The Australian Government has directed the ACCC to undertake an inquiry into ECEC prices. A final report will be provided to Government by 31 December 2023.</p>
ASIC	<p>ASIC is responsible for registering businesses including ECEC providers and making information regarding companies' ownership and activities publicly available.⁷⁹</p>
ATO	<p>The ATO is responsible for:</p> <ul style="list-style-type: none"> • providing Services Australia with the adjusted taxable income of families so they can compare a family's estimated income and balance payments, if necessary⁸⁰ • Provider performance benchmarks for the ECEC sector.⁸¹
ECEC services providers	<p>ECEC service providers:</p> <ul style="list-style-type: none"> • Provide ECEC services to children and families. • Satisfy obligations under both Australian and State and Territory laws including: <ul style="list-style-type: none"> – Comply with Family Assistance Law; – Comply with National Law and National Regulations and all related State or Territory laws involving the operation of an ECEC service, unless that service is exempt; – Ensure the ECEC provider and relevant personnel are fit and proper persons to have a role in the receiving and passing on of CCS payments; and – Ensure that background checks, including criminal history and working with children checks, are carried out for relevant staff and educators.⁸²
Other state government departments	<p>Provide broader policy and supports for children which may be provided in parallel to or in the same location as ECEC. These services and services might include disability support, child protection, and child immunisation.</p>

⁷⁸ 'About the ACCC', *Australian Competition and Consumer Commission* (2022), <<https://www.accc.gov.au/about-us/australian-competition-consumer-commission/about-the-accc>>

⁷⁹ 'Our role', *Australian Securities and Investment Commission* (2022), <<https://asic.gov.au/about-asic/what-we-do/our-role/>>

⁸⁰ 'Child Care Subsidy - Your family income estimate', *Services Australia* (2022), <<https://www.servicesaustralia.gov.au/your-family-income-estimate-for-family-assistance-payments?context=41186>>

⁸¹ 'Child care services', *Australian Taxation Office* (2022), <<https://www.ato.gov.au/business/small-business-benchmarks/in-detail/benchmarks-a-z/a-c/child-care-services/>>

⁸² The Australian Department of Education, Skills and Employment, 'What is an approved provider?' (2022), <<https://www.dese.gov.au/child-care-package/child-care-provider-handbook/becoming-approved-provider/what-approved-provider>>

System actor	Role in ECEC sector
Not-for-profit community services	Not-for-profit services may take on a breadth of roles in different contexts. Actors might include charity, religious, cultural, or other community groups that work with children and their families in ECEC settings. Some not-for-profit organisations may own or operate care services, while others may provide more targeted 'wrap-around' supports for families which could be delivered alongside ECEC (e.g., healthcare for children and families, social services, food banks, English language supports, cultural or religious services).
NDIA	The NDIA is an independent statutory authority, whose role is to implement the NDIS. As part of the NDIS, funding for appropriate supports is provided to children with disabilities. ⁸³
NIAA	The National Indigenous Australians Agency is an Australian Government agency with responsible for whole-of-government coordination of policy development, program design, and service delivery for Aboriginal Australians and Torres Strait Islander people. ⁸⁴ Additionally, they develop and release the National Aboriginal and Torres Strait Islander Early Childhood Strategy. ⁸⁵
Children and their families	<ul style="list-style-type: none"> • Enrolment of children in services. • Payment of fees to ECEC service providers. • Reports any consumer issues to relevant agencies.
Teachers and educators	<ul style="list-style-type: none"> • Deliver ECEC education to children. • Obtain qualifications to ensure capability to deliver to the required standard.⁸⁶
Unions	Several ECEC unions take on roles such as representing ECEC employees in negotiations with employers and the Government on workforce relations issues, including remuneration, working conditions, and training. ⁸⁷
VET providers	VET providers award qualifications in ECEC education (e.g., Certificate III in Early Childhood Education and Care and Diploma of Early Childhood Education and Care). Individuals with relevant VET qualifications may become ECEC educators. ⁸⁸ The NQF states that all educators must be working toward or have obtained a Certificate III qualifications, with at least 50 per cent of educators requiring a diploma or higher. ⁸⁹
Higher education providers	Higher education providers award qualifications in ECEC education (e.g., a bachelor's or master's degree in early childhood education). Individuals with

⁸³ 'The early childhood approach', NDIS (2022), <<https://www.ndis.gov.au/understanding/families-and-carers/early-childhood-approach>>

⁸⁴ 'The Agency', National Indigenous Australians Agency (2022), <<https://www.niaa.gov.au/who-we-are/the-agency>>

⁸⁵ National Aboriginal and Torres Strait Islander Early Childhood Strategy, National Indigenous Australians Agency (2021), <<https://www.niaa.gov.au/resource-centre/indigenous-affairs/national-aboriginal-and-torres-strait-islander-early-childhood-strategy>>

⁸⁶ 'Early childhood teaching: make a difference', DET Victoria (2022), <<https://www.vic.gov.au/make-difference-early-childhood-teaching>>

⁸⁷ The Australian Children's Education and Care Quality Authority n17.

⁸⁸ Ibid.

⁸⁹ 'Qualifications for centre-based services with children preschool age or under', The Australian Children's Education and Care Quality Authority (2022), <<https://www.acecqa.gov.au/qualifications/requirements/children-preschool-age-or-under>>

System actor	Role in ECEC sector
	relevant higher education qualifications may become ECEC teachers, to meet the NQF's requirements around the teacher to child ratio. ^{90,91}
Peak bodies	Advocates for the interests of young children, their families, and ECEC sector. ⁹²
Think tanks and advisory groups	Provide research for families, researchers, and policymakers. Additionally, they may advocate for the workforce, providers, and/or industry.
Professional organisations	Provides research and advice to services, families, researchers, and policymakers.

2.4 The Role of Government in Early Learning

Early childhood education and care enables critical outcomes which support the Australian economy and society.

A strong body of evidence establishes the **education and child development benefits** of early childhood education and care, especially for vulnerable children, with anticipated benefits to cognitive and social development, educational outcomes, and longer-term outcomes, such as earning potential and wellbeing. For example, there is an anticipated \$997 million increase in lifetime earnings as a result of early childhood education as it leads to higher school achievement thus higher future qualifications and earnings.⁹³

There are also established returns to investment in supporting the **economic participation of parents and carers** by ensuring access to affordable and quality ECEC.

While some private markets exist to deliver ECEC, there is a clear rationale for government intervention in the market to support **affordability** of services to ensure participation, ensure equity in **access** to services, and regulate for **quality** and provision, in order to realise these public benefits.

2.4.1 The Role of Government in Early Learning

Over the past 15 years the Early Childhood Education and Care (ECEC) system in Australia has undergone a period of significant reform. These reforms have included material steps towards developing a nationally consistent landscape, improving quality of provision, and more directly integrating the notions of education and care.

In 2009, the Australian and State and Territory Governments committed to delivering universal access to ECEC programs for all children in the year before school.⁹⁴ Then in 2012, the National Quality Framework (NQF) was established to create a national system for regulation, quality

⁹⁰ Department of Education and Training Victoria n18.

⁹¹ The Australian Children's Education and Care Quality Authority n104.

⁹² 'Useful links', The Australian Children's Education and Care Quality Authority (2022), <<https://www.acecqa.gov.au/help/links>>

⁹³ The Front Project, (2019), <https://www.thefrontproject.org.au/images/downloads/Cost-benefit%20analysis_Government%20info%20sheet.pdf>

⁹⁴ Parliament of Australia, 'Universal access to early childhood education: a quick guide' (2014).

<https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1314/QG/ChildhoodEducatAccess>

assurance and standards for the sector.⁹⁵ the Australian Government merged previous initiatives to establish the Child Care Subsidy (CCS) in 2018, which continues to be the primary means-tested mechanism through which affordability is promoted.⁹⁶

Public governance theory suggests that decision-making in a federal system should be delegated down to the lowest level possible to ensure decisions are made efficiently and with the best available information.⁹⁷ This would suggest responsibility for most human services generally ought to rest with state or territory governments, except where there are compelling reasons to the contrary. However, public governance theory also suggests that within federal systems, central governments are typically allocated a strategic coordination and oversight role to ensure that innovations and efficiencies within leading jurisdictions are shared across all jurisdictions for the benefit of the nation.^{98,99}

A key finding from stakeholder consultations is that there are varying levels of understanding of the division of roles and responsibilities in the ECEC sector between the Australian Government, ACECQA, state and territory policy and regulatory agencies and the sector. This lack of role clarity emphasises the important role of the Australian Government involvement in strategic coordination and oversight aspects of the ECEC system, including on citizen equity grounds, and the Government's ability to leverage existing national service mechanisms, including ATO and Services Australia systems, to deliver uniform outcomes.

International examples of ECEC markets demonstrate the differing roles that government can play and might inform more active approaches for a central system leader to oversee the market. This suggests that there is a valuable role for the government to play beyond its role in funding child care (addressing affordability) to also take action on market goals such as accessibility, quality and connectedness to other systems. This would see the Australian Government increasing its focus on establishing an effective and efficient market for early learning services by funding families and working with states and territories, and by taking unilateral action to remedy issues of accessibility and quality, where necessary.

2.4.2 The Role of Government in Early Childhood Education and Care Markets

Within the CCS market, the primary role of the department has been assisting families with the cost of child care through the Child Care Subsidy (CCS) under Family Assistance Law and the provision of preschool indirectly through the Preschool Reform Agreement.¹⁰⁰ This activity has largely supported the department in pursuing the objectives of affordability and access for families.¹⁰¹ There is a secondary focus on quality arrangements in the market through the department's funding relationship with ACECQA and supporting thin markets through the CCCF.

⁹⁵ Parliament of Australia, 'The National Quality Framework for Early Childhood Education and Care' (2011), <https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2011/December/The_National_Quality_Framework_for_Early_Childhood_Education_and_Care>

⁹⁶ Fang Lee, 'Crisis of care and education in the early years: Paradoxical moments in the global pandemic' (2022), *Global Studies of Childhood* 10(4).

⁹⁷ Abas, M.A. (2019). Public Policy and Governance: Theory and Practice. *Global Encyclopedia of Public Administration, Public Policy and Governance*.

⁹⁸ Graham J, Plumptre TW, Amos B (2003) Principles for good governance in the 21st century. Institute on governance, Ottawa.

⁹⁹ DANIDA, Danish International Development Agency. (2007). Effective and accountable public-sector management – strategic priorities for Danish support for good governance, Copenhagen, Ministry of Foreign Affairs of Denmark, Copenhagen.

¹⁰⁰ Department of Education, 'Family Assistance Law' (2022), <<https://www.education.gov.au/child-care-package/compliance-child-care/family-assistance-law>>

¹⁰¹ Australian Government, *The New Child Care Package* (2018), <https://www.sswld.health.nsw.gov.au/Carers/content/pdf/New_Child-Care-Package.pdf>

The interface between state and territory governments and the Australian Government in intervening in the ECEC system is complex and has evolved over time. Historically, the Australian Government has played a substantial role through administrative, legal, and economic levers, which primarily relate to overseeing the CCS.

The COVID-19 pandemic placed significant pressure on the ECEC system and required the department to intervene to ensure the financial sustainability of providers, including in local government areas identified as COVID-19 ‘hotspots’ receiving payments of 25 per cent of their pre-lockdown revenue. Additionally, the department introduced a gap fee waiver, which enabled the CCS to continue even if children were not attending.¹⁰² The Australian Government’s role expanded to intervene in the market and guarantee the availability of care, as the department played a more active steward role in the system and market, including the quality of early learning and accessibility.^{103,104}

Understanding the role of state and territory governments in child care markets is challenging given variations across jurisdictions. In all jurisdictions, state regulatory authorities (SRAs) are partly responsible for quality under the National Law.

In most jurisdictions, state and territory governments have an obligation to provide education services. In some jurisdictions, this includes responsibility for preschool. However, it is only for some jurisdictions that ensuring access and affordable early learning education for children aged zero to 3 years old is assumed as part of that remit. Recently, some state and territory governments are shifting from a more ‘passive’ stewardship approach to an ‘active’ approach, focusing on accessibility and affordability. For example, the New South Wales and Victorian governments made commitments in June 2022 relating to the free provision of a full year of play-based learning for children before their first year of school and extending preschool provision to 3-year-olds.¹⁰⁵

Reflecting on a changing national context, consultations with sector stakeholders in ECEC demonstrated limited clarity among market players as to the objectives of the Australian Government in the Early Learning System, apart from Outcome 1 of the department’s Corporate Plan, which includes both early learning and school-based components.¹⁰⁶ Notably, the two programs within Outcome 1 that focus on the Child Care System primarily relate to affordability of care and do not include indicators designed to measure accessibility or quality of the system. To gauge the performance and adequacy of the system, a range of indicators covering affordability, accessibility and quality are required. It is also beneficial to measure equity, which is considered in this section as lens through which performance on all other system objectives should be viewed and measured.

The consultation and strategy development involved shaping a shared definition of the outcomes which the CCS market seeks to achieve. These outcomes and objectives provide an analytical

¹⁰² ‘Targeted assistance for child care services during COVID lockdown’, *Department of Education* (2021), <<https://ministers.dese.gov.au/morrison/targeted-assistance-child-care-services-during-covid-lockdown>>

¹⁰³ Department of Education, above n 65

¹⁰⁴ Department of Education, ‘COVID-19 and early childhood education and care’ (2022), <<https://www.education.gov.au/covid-19/childcare>>

¹⁰⁵ ‘Joint Commitment to Transform Early Education’, *Premier of Victoria* (2022), <<https://www.premier.vic.gov.au/joint-commitment-transform-early-education>>

¹⁰⁶ Outcome 1: Improved early learning, schooling, student educational outcomes and transitions to and from school through access to quality child care, support, parent engagement, quality teaching and learning environments.

Australian government Department of Education, *Corporate Plan* (2022) <<https://www.education.gov.au/about-us/resources/2021-22-corporate-plan>>

foundation for the Strategy and are used to dimension the opportunities for the department to maximise the effectiveness of the CCS (see Chapter 3).

3. Establishing Early Childhood Market Goals

In framing the opportunities to strengthen market management, this Strategy provides a view of objectives for the early learning system and the role of the department in supporting them.

Clear, achievable and measurable targets is a cornerstone of strong corporate governance and public policy implementation, including policy and program delivery and evaluation. Increasingly, strategic oversight bodies and stewards are looking to embed strategic targets and performance measurement as part of good governance. Examples include *Outcomes Budgeting* in New South Wales,¹⁰⁷ the New Zealand Government's *Wellbeing Budget 2022*,¹⁰⁸ and the Organisation for Economic Cooperation and Development's (OECD) *Sustainable Development Goals and Public Governance*.¹⁰⁹

This section subsequently transforms the system objectives of the Early Learning System by applying a commercial lens to those objectives to generate seven 'market conditions' grouped into two domains: families and providers. These conditions articulate the necessary characteristics for the CCS market to support access, affordability, and quality for users.

These preconditions present a means for the department to measure performance and identify instances where market interventions are required. This section graphically demonstrates how system outcomes and objectives are supported by the market preconditions, before finishing with an explanation as to how this measurement framework might be operationalised through the market monitoring framework, and how the framework can be used to guide the stewardship of the early learning market. Importantly, an equity lens is applied to assess performance against each of the five objectives.

3.1 Early Childhood Education and Care System Objectives

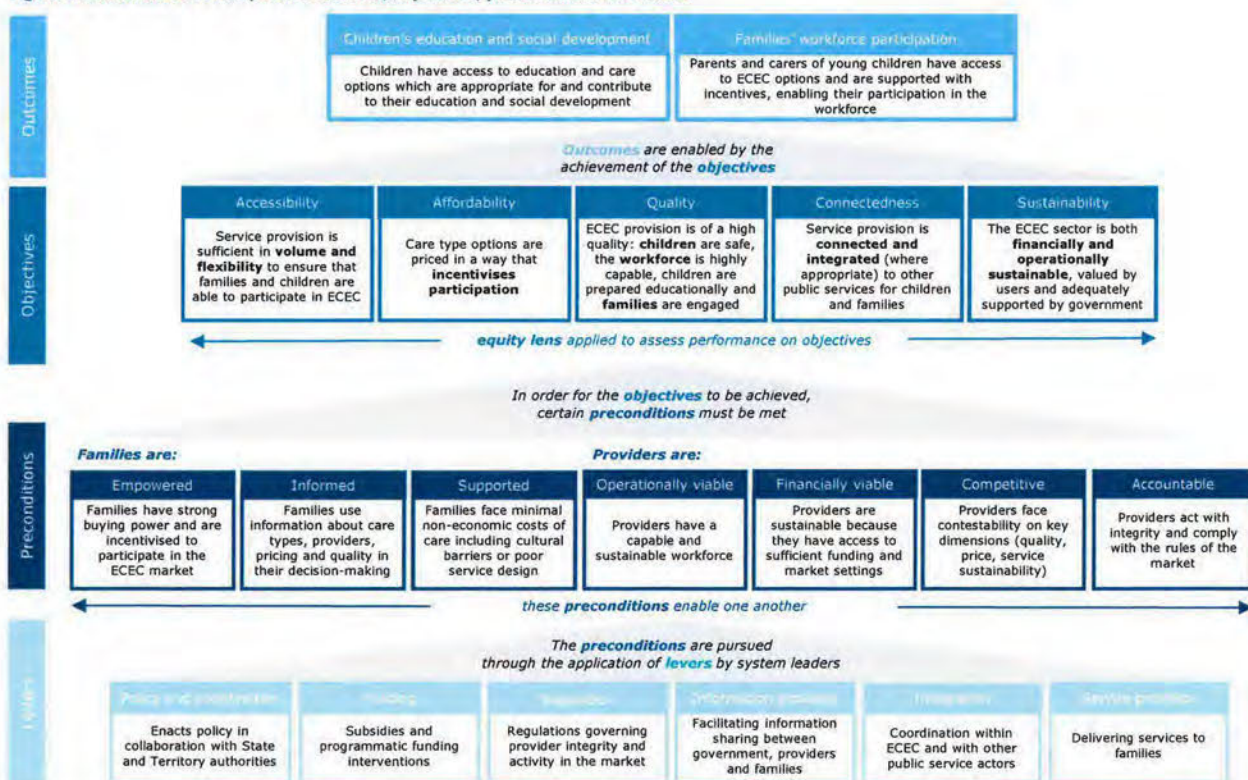
Figure 5 below provides a framework to understand how different actors support the ECEC system to achieve its outcomes.

¹⁰⁷ NSW Treasury, *Outcome Budgeting*, (2021) <<https://www.treasury.nsw.gov.au/budget-financial-management/reform/outcome-budgeting>>

¹⁰⁸ NZ Treasury, *Wellbeing Budget 2022: A Secure Future*, (2022) <<https://www.treasury.govt.nz/publications/wellbeing-budget/wellbeing-budget-2022-secure-future>>

¹⁰⁹ OECD, *Sustainable Development Goals and Public Governance*, (2022) <<https://www.oecd.org/gov/sustainable-development-goals-and-public-governance.htm>>

Figure 4: Schematic of ECEC system outcomes, objectives, preconditions and levers



The key components of the schematic include:

- **Outcomes:** The high-level outcomes that the ECEC sector in Australia is intended to deliver for the Australian community (noting that the ECEC sector in isolation is unlikely to achieve these outcomes individually). This is widely understood to include 1) supporting **child development** and educational outcomes, and 2) enabling **workforce participation** for families with children, particularly targeting women's workforce participation.¹¹⁰ While the relative emphasis placed on each of these two system outcomes has varied over time and across policy contexts, they largely reflect the role of the ECEC system in supporting the Australian economy and society.
- **Objectives:** The desired and necessary aspirations of the ECEC system that deliver on the overall outcomes. The objectives for government intervention in the ECEC market reflect the objectives of the CCS, which are defined in the Family Assistance Law as including: **access** (to facilitate workforce participation for families), **affordability** (to support families with the cost of care), and **quality** (to support the early learning and development of children).^{111,112} These three core objectives have been progressively developed over time by the department and have been embedded into operating plans. Importantly, while the objective of '**equity**' has not been explicitly identified, it can be viewed as an overarching dimension or lens to each of these objectives, emphasising its critical role in the overall system. For example, comprehensively evaluating the system's performance on affordability requires understanding the experiences for families across socioeconomic levels and demographic groups. Other objectives which guide government interventions in the market include **system sustainability** (recognising the role of funding as a parameter for intervention) and **system connectedness** (recognising the role of ECEC in connecting families and children to other public services).
- **Preconditions:** The necessary conditions for the market to ensure that families and providers have the information, resources and capability required to achieve sufficient quality and quantity of provision and to avoid thin markets. The preconditions have been developed with specific reference to the ECEC sector but are derived from overarching market stewardship principles found in the literature. This literature identifies the role of a market steward in a public service context as seeking to maintain effective choice for families by ensuring that they are **empowered, informed and supported** by sufficient funding mechanisms and detailed education and information is available to enable consumers to make well informed decisions and purchase services. In addition, it aims to ensure that providers are **operationally and financially viable, competitive and accountable**. These preconditions are interdependent. Families must be empowered by funding for providers to be financially viable. Similarly, competition among providers is incentivised by informed families. For example, if a provider becomes uncompetitive, informed families will realise this and change providers. In this way, providers are incentivised to be on a journey of continuous improvement, which results in driving service quality upward.
- **Levers:** The tools that system leaders can use to direct the market to meet the preconditions. In the ECEC sector, there are many system leaders that may take on stewardship roles. As such, these levers – policy and coordination, funding, regulation, information provision, integration,

¹¹⁰ Productivity Commission (2014) Childcare and Early Childhood Learning Productivity Commission Inquiry Report, Overview and Recommendations (no. 73, 31 October 2014)

¹¹¹ Australian Government Department of Social Services, *Guides to Social Policy Law: Family Assistance Guide*, version 1.237 (9 May 2022) <<https://guides.dss.gov.au/family-assistance-guide/1/2/6>>

¹¹² Some of these objectives are drawn directly from the Productivity Commission's (2014) Inquiry Report. The Report set out the features of 'An ECEC system to aim for', where guiding principles for the Inquiry related to supporting safety and quality, choice, efficiency of provision, equity of access and value from public investment.

and service provision – can be used by a range of organisations. For example, ACECQA plays an important role in administering the regulation relating to ECEC quality.

3.1.1 Mapping Preconditions to Objectives

The schematic provides a clear articulation of how the overall outcomes and objectives of the ECEC market cascade down to practical preconditions that the department can support. The department, in its oversight of the CCS market, has the potential to make a meaningful contribution to the broader ECEC objectives – accessibility, affordability, quality, sustainability and connectedness – through supporting the achievement of these preconditions.

The department's seven preconditions can be mapped to the ECEC objectives. For example, empowering families through government funding improves affordability by ensuring they have the buying power needed to purchase services. In articulating these contributions, Table 2 identifies an ideal future state of the ECEC market where the preconditions are met. Importantly, meeting these preconditions will necessitate collaboration with other system leaders.

Table 2: Relationship between preconditions and system objectives

Preconditions	System objectives		
	Access	Affordability	Quality
Families			
Empowered	Families have access to a sufficient range of ECEC services	Families have sufficient buying power needed to afford ECEC services which suit their needs	Families have sufficient buying power needed to choose between services based on quality
Informed	Families are aware of the different service options, allowing them to access services that suit their needs	Families have the information to locate affordable options	Families can identify high-quality services, encouraging providers to compete on the basis of quality
Supported	Families with different care needs have equitable access to ECEC services	Families can afford to access suitable services for their specific requirements	Families can use quality measures as a signal that a provider can meet their needs.
Providers			
Operationally viable	Providers can employ a sufficient workforce to offer services to meet demand, in terms of volume and flexibility	Providers can consistently attract and retain capable workers, to ensure that delivery remains affordable	Providers have workforce with sufficient skills, capacity, and wellbeing to deliver high-quality services

Preconditions	System objectives		
	Access	Affordability	Quality
Financially viable	Providers have sufficient funding to provide services which all children can access	Financially viable providers will be able to deliver services at a competitive price	Providers have the necessary resources to deliver high-quality services
Competitive	Provider competition on the basis of volume and flexibility will increase access for families	Provider competition on the basis of price will increase affordability for families	Providers compete on quality, including on inclusion and outcomes for children.
Accountable	Providers offer families access to legitimate ECEC services	Providers use government funding for legitimate purposes, reducing costs for families	Providers are held responsible for delivering quality services to families

In addition, each of these market objectives can be understood through the three lenses of 'families', 'providers' and 'government'. Further detail on how each of these objectives can be analysed through these lenses is provided in the sections below.

3.1.2 Objective 1: Affordable Child Care

The objective of **affordability** is achieved when care type options are priced in a way that incentivises participation for families. In its contemporary context, affordability serves the purpose to offer a range of options that meet the needs of families and children, priced in a way that incentivises economic participation. Affordability can be understood through the three lenses of 'families', 'providers' and 'government':

- For **families**, affordability is a primary concern and is the main factor in a family's ability to access child care. The main financial support families receive to support child care affordability is the Child Care Subsidy. In the June quarter of 2021, over 1.3 million children attended a CCS-approved ECEC service.¹¹³ Families also consider the out-of-pocket expenses to enrol in child care and the interaction of possible disincentives, including with taxation, social security payments and superannuation.
- Considering **providers**, affordability for families is important to the extent it ensures adequate demand to support provider viability.
- For the **government**, the focus is on family affordability and calibrating the system to keep out-of-pocket expenses in line with capacity to pay. Governments influence affordability through providing funding, either directly (government payments to families or providers) or indirectly (by influencing the flow of financial support to the sector).

The level of affordability in the ECEC markets influences accessibility. For example, the affordability of ECEC is a key determinant of access (including provider viability).

¹¹³ Department of Education, *Child Care in Australia report June quarter 2021*, <<https://www.dese.gov.au/child-care-package/early-childhood-data-and-reports/quarterly-reports/child-care-australia-report-june-quarter-2021>>

3.1.3 Objective 2: Accessible Child Care

The objective of system **accessibility** is achieved when service provision is sufficient in **volume and flexibility** to ensure that families and children can participate in ECEC, including First Nations groups and those living in remote, regional and rural areas. The different facets of accessibility can be understood through the three lenses of 'families', 'providers' and 'government':

- For **families**, access is enabled by the availability of services that are suitable across different financial, social, cultural and geographic contexts. This includes considering the equity of access across different cohorts, such as culturally and linguistically diverse groups, or remote communities. It may also intersect with access to aligned or integrated public services, such as health or social supports.
- For **providers**, accessibility includes the volume and types of provision and the incentives to supply services. The Productivity Commission, in their 2014 Inquiry, articulated stewardship as activity which ensures that providers are supported to enter and exit a market and that any conditions within the market for service operation exist only to ensure that families are provided with effective positive outcomes.¹¹⁴
- For **government**, accessibility includes supporting demand and supply, as well as other social objectives such as the quality and equity of access. This implies that accessibility includes the supply and demand dimensions listed above, as well as the quality of access, in terms of child outcomes, and in equitable access, such as the case of thin markets.

The level of accessibility in the CCS market and ECEC sector influences and is influenced by the sector's performance on other objectives. For instance, the affordability of ECEC is a key determinant of access (including provider viability), and the connectedness of the system to other public services could also enable (or hinder) access for families. Further, issues of quality and the suitability of services to family needs could limit access.

3.1.4 Objective 3: Quality Child Care

In the context of ECEC systems, the objective of **quality** describes the effective management of the sector to enable high-quality care where children are safe, the workforce is highly capable and stable, children are prepared educationally, and families are engaged.

- For **families**, quality encompasses child safety as well as social and development outcomes for children. A further consideration is the role inclusion and equity play in supporting quality for all families, for example, through providing culturally appropriate services, or wraparound supports for children with additional needs. Under this objective, First Nations Groups benefit through the provision of high quality, inclusive and culturally responsive services.
- For **providers**, quality considerations might encompass compliance with the NQS and NQF and include activity to manage appropriate inputs – such as workforce – in line with the NQS requirements. Compliance with quality guidelines might include consulting with families to understand different users' perspectives of quality.

For **government**, the objective of quality is to support families by ensuring the supply of ECEC is genuine and safe. Services that meet the requirements of the NQF will enable participation in ECEC services, as families trust the systems in place to support the child's development and wellbeing. Measuring quality might also involve considering the quality of return on investment, to ensure the safeguarding of public funds against fraudulent provision. It is important to acknowledge that while

¹¹⁴ Australian Government, Productivity Commission Inquiry Report Volume 2, *Productivity Commission* (2014)

the notable difference between the department and ACECQA is around compliance and the safeguarding of public funds, all other areas of the quality objective are well aligned. There is a complex relationship between access, affordability, and quality. The objective of quality, as defined in this strategy, encompasses the objectives of socially inclusive models of care, which are culturally appropriate and designed to meet the needs of families. In this way, quality enables access. Where quality of provision requires a higher level of investment from service providers which is passed on in the form of higher out-of-pocket fees, quality might be argued to hinder affordability. However, the relationship between quality of education and costs of delivery remains ambiguous and is understood to be influenced by many other factors.

3.2 Additional Considerations

3.2.1 Objective 4: System Sustainability

A sustainable ECEC sector refers to a sector that is both **financially and operationally sustainable**, valued by users and adequately supported by government. This objective includes considering connected markets – such as the market for ECEC educators and teachers – and ensuring there is a sustainable supply of inputs to the system:

- For **families**, sustainability may be a concern where workforce or funding issues affect the consistency or quality of service across a period of care, or limit access to care altogether.
- For **providers**, sustainability considerations might include the consistency of government investment to ensure provider viability and competition, the sustainability of skills supply to manage workforce needs, and the need to ensure the services are valued by families and the public.
- For **government**, sustainability may be achieved through stewardship activities that intervene in instances where market mechanisms are insufficient. Workforce sustainability and public perceptions of the sector's capability are critical to ensuring that the ECEC system is operating in a manner which supports the intended outcomes of workforce participation for parents and carers, and educational development for children.

The level of sustainability in the market is influenced by the fiscal sustainability from the Australian Government Budget, workforce consistency, and capability, public perceptions of the sector, and the systems integrity. For example, if the public perceives child care to be low quality, parents are less likely to access services, therefore services are more likely to not be financially sustainable, with the system becoming unsustainable.

3.2.2 Objective 5: System Connectedness

The objective of **connectedness** describes an ECEC system which is **connected and integrated** (where appropriate) to other public services for children and families. This might include connectedness of outcomes to school readiness, as well as connectedness in service delivery, and the availability of wraparound services for children and their families (such as immunisation, disability support, physical and mental health supports).

- For **families**, connectedness refers to the connection of families to public services, but also the broader incentives for parents to return to work, including the calibration of the tax system.

- Considering **providers**, connectedness is not a major focus. The provider's focus on system connectedness will differ across care types or locations, with some providers delivering broader services via place-based or all-in-one solutions.
- For **government**, connectedness could be defined in terms of connectedness to other public services (including services utilised by families and by ECEC providers), connectedness of the ECEC system across care types, connectedness between government departments and agencies, and/or connectedness of government interventions across public service markets. This may involve supporting connections between the CCS market interventions and the objectives of an overarching Early Years Strategy.

The level of connectedness in the ECEC sector is influenced by the sector's performance on other objectives. For example, the quality of services, and their compliance in referring students to additional services will enable access to public services.

3.3 Early Childhood Market Preconditions

3.3.1 Precondition 1: Empowered Families

Families are **empowered** when they have strong buying power and are incentivised to participate in the ECEC market.

The key objectives that can be realised through the precondition of empowered families are **affordability and access**:

- When families have strong buying power in the market, they can **afford** ECEC services. This is particularly important in thin markets, where families may not be able to choose between different pricing options and may face relatively high costs due to short supply.
- Similarly, empowered families are economically incentivised and able to **access** the service type and volume of care that suits their individual needs.
- However, the precondition of empowered families also contributes to the realisation of other sector objectives – for example, the **sustainability** of the ECEC sector is dependent on families being incentivised to participate in the ECEC market.

The responsibility of a steward is to use a combination of levers to direct the market to meet the preconditions. The levers that the steward can use to ensure families are empowered include:

- **Funding** through financing families either through direct payments to families or indirect payments to providers.
- **Information provision** by providing families with timely and accurate information on care types, prices and quality that they need to exert their buying power and make educated choices around provision.
- **Policy and coordination** by legislating policy that improves the buying power of families and coordinating with Services Australia and state and territory agencies to deliver funding.

The department has a legislative responsibility in providing funding to families:

- The department's role in providing funding is based on the Family Assistance Law. The department administers the CCS to families, therefore indirectly funding OSHC, FDC, CBDC,

and IHC. Additionally, the department provides other types of funding, including operational, capital, and preschool funding.

- The functional mechanism for distributing funds to eligible services is undertaken by Services Australia, and state and territory policy agencies.
- Receiving and reporting funding from the Government as a co-payment for families under the CCS is a supporting function undertaken by service providers.
- Consultations highlighted a potential gap in the market with respect to 'out-of-pocket' gap fees. Although the department collects this information for all CCS families, it is reluctant to intervene, which may result in rising fees that bring providers greater profits.

The CCS acts as the primary fee support for Australian families. However, evidence suggests that affordability remains a central issue and barrier to child care participation.

3.3.2 Precondition 2: Informed Families

Families are considered **informed** when they are able to use information about care types, providers, pricing and quality in their decision-making. This precondition requires that the steward directs the ECEC sector to deliver market information to families or the steward collects the information and provides it to families themselves. Reflecting the dual outcomes to support participation and development for children, the informed families precondition includes both access to information about the ECEC sector to ensure it is navigable for users, as well as sufficient information for families to enable awareness, trust and participation in culturally suitable care options.

Provision of, and access to, information must reach a point whereby families can be considered sufficiently informed before the objectives of the ECEC sector can be realised. For example:

- A lack of information on pricing may limit the **affordability** of care as families may be unable to locate low-cost services
- Limited information may also inhibit **access** for families, where information asymmetry creates challenges for family choice-making
- If families are unable to access information on service **quality**, this may reduce incentives for providers to compete based on quality
- A lack of information about care options and associated services may also hinder sector **connectedness**, as families are unable to access wraparound services if relevant information is not provided
- Where families are informed, there are also benefits for providers, where the supply-side of the market can make clearer competitive signals about their offerings.

The steward can utilise a range of levers to ensure families are adequately informed including:

- **Information provision** by directly collecting information from providers and families, and disseminating that information to families
- **Regulation** by requiring that key system leaders (e.g., providers, agencies) collect and release information on ECEC service delivery
- **Integration through** coordinating the sharing of ECEC data between government, families, and providers.

Information provision is the key lever to shape the market on the demand side, as a tool for enabling informed and supported choice making, 'nudging' consumer behaviour to align to system goals.

The Institute for Government, in profiling the opportunities attached to a stewardship approach, acknowledges how the pertinent role of facilitating consumer engagement and informed decision-making drives success of public service market operations. Importantly, to maximise efficiency and effectiveness of information provision, there needs to exist a clear delineation of responsibilities and the steward must be sufficiently supported to undertake the activity.

A system mapping exercise revealed that currently the Department of Education plays a supporting role in disseminating information to families:

- Historically, the department's role in sharing and compiling information about the ECEC market has primarily been for internal, market management and assurance purposes, rather than a role in providing external-facing information to families
- The main mechanism for providing information to families about service provision options, via the NQS rating mechanism is undertaken in collaboration with ACECQA and state and territory authorities, and acts as a major signal to families around quality of provision
- Distributing information to families about their CCS eligibility is a function primarily undertaken by providers, informed by reporting from Services Australia through to resources developed by state and territory authorities.

Consultation with stakeholders highlighted a gap in accountability for informing consumers about how to navigate the ECEC market, beyond the information they receive about their eligibility for CCS, as their financial circumstances change. Recently, the department has progressed a number of enhancements to the Starting Blocks website, which aims to be a 'one-stop-shop' for families to access current information about early childhood services, real-time fee data and quality ratings, and average year-on-year fee increases.

3.3.3 Precondition 3: Supported Families

Families are **supported** when they face minimal non-economic costs to care. Such costs include those relating to cultural or equity barriers, a lack of wrap around services or other elements of poor service design. In other words, families are supported when their preferences are understood, and services are suited to their needs.

The precondition of supported families is necessary to achieve several of the key objectives of the ECEC sector, including access, quality, and connectedness.

- A lack of suitable services may limit **access** for marginalised families. For example, if there are not any culturally appropriate services, then culturally and linguistically diverse communities, may be disincentivised from accessing care.
- Further, if services are not suitable for families and they face large non-economic costs to care, this may create **quality** issues. For example, a provider that does not effectively support families may face low utilisation rates, making it challenging to make the financial investments needed to maintain high quality ratings.
- Finally, if families are unable to access well-designed, wrap around ECEC services this can undermine the sector's objective of **connectedness**.

The key mechanism that the steward can use to meet the precondition of supported families is **information provision**. Through facilitating the sharing of information between government,

providers and families, the steward can increase the transparency of families' needs and incentivise providers to fulfill their needs.

Through schemes such as Connected Beginnings and the Community Child Care Fund, the Department of Education plays a partial role in ensuring services are suitable to family needs, which can vary. However, the system mapping exercise undertaken to inform this Strategy found that there is an opportunity to clarify the role of the steward regarding equity and cultural inclusion within the ECEC system.

Similarly, responsibility for the 'system connectedness' objective is shared across multiple system leaders including the Department of the Prime Minister and Cabinet, Department of Social Services, Services Australia, local governments, and service providers.

During stakeholder consultations, several government stakeholders acknowledged the need to break down barriers to entry and increase incentives for providers to operate in a wide range of contexts. For example, it was noted that there can be limited incentives for providers to operate in 'thin markets' or provide culturally appropriate services in remote communities.

Levers which can be used to meet the precondition of supported families will depend on the nature of the barriers which are identified, though may include:

- **Funding** to support services to adapt culturally safe practices, or in the case of extremely thin markets, commissioning, or direct **provision** to communities.
- **Information provision**, especially information sharing between government agencies and the sector with respect to families' needs.
- Where necessary, changes to **regulation** or **policy** settings to support the market to pursue equity in the system.

3.3.4 Precondition 4: Viable Providers

There are two key dimensions of viability which must be present to ensure that service provision is accessible, affordable and of high quality. Providers must be:

- **Operationally viable** so that there is sufficient capacity to **supply** services to meet demand. This is primarily dependent on them having a capable and sustainable workforce.
- **Financially viable** so that there are sufficient funding flows, via family **demand** and/or government support, to incentivise providers to enter the market. When providers are sufficiently financially supported, they can deliver quality, consistent education and care, and support the continual improvement of children.

Importantly, providers can simultaneously be financially viable and operationally unsustainable (or vice versa). For example, a service may be adequately funded but lack the workforce needed to deliver the services in demand.

- Both preconditions must be established before the broader objectives of the ECEC sector can be achieved. If providers are not operationally viable in some markets, then providers may not be able to operate, especially in thin markets (e.g., regional and remote areas, children with complex disabilities, or in need of care in non-standard hours.). This would reduce the ECEC **access** available to many children.

- If providers are unable to attract or retain experienced staff, then the **quality** of ECEC services will decline significantly. Quality ECEC provision relies on staff forming relationships with the children, developing an understanding of the needs of the local community, and investing in their workplace – all of which are impacted by high staff turnover. Issues with financial viability can also undermine the **quality** of ECEC services provided.
- Further, without a capable and sustainable workforce providers cannot continue to offer services into the future, which would impede the **sustainability** of the ECEC sector. Similarly, in markets or sub-markets where ECEC provision is not financially viable, the **sustainability** of the ECEC sector is threatened as large numbers of providers may stop providing ECEC services and exit the market. It is therefore imperative that the exit of major providers is effectively managed within the market.

The levers that can be used to direct the market towards greater **operational viability** include:

- **Policy and coordination** by introducing policies to attract talent and improve retention.
- **Funding** by investing in the sector (i.e., increasing funding for ECEC qualifications at TAFE or directly 'topping-up' the wages of ECEC workers).
- **Service provision** by creating a positive work environment for staff in publicly run ECEC centres.

Funding is the key lever used to support providers' financial viability. While a market mechanism is used to deliver services, there are circumstances where government intervention is preferable to the closure of a provider, including in the case of emergencies or where there are thin markets. Assigned responsibility for oversight and management of funding mechanisms affords the steward the opportunity to support providers to remain financially viable within the market during periods of market instability and uncertainty. Additionally, funding mechanisms support the steward to drive market activity in thin markets, encouraging providers to enter the market and supporting them to remain viable in the competitive operating environment.

Alongside funding, other interventions might include:

- **Regulation** through designing the architecture of the market to enable providers to set prices, collect funds and deliver services in a financially viable manner; and
- **Information provision** by offering providers the information necessary to enter the market in financially viable areas and make informed choices about provision.

To support operational viability, there is far more uncertainty surrounding which stewards bear primary responsibility for workforce issues relating to the sector. ACECQA, on behalf of the Australian and state governments, developed the *National Children's Education and Care Workforce Strategy (2022-2031)*, which was developed to support the recruitment, retention, sustainability, and quality of the sector workforce. While this workforce strategy provides a roadmap for some interventions to support the workforce, consultations revealed a lack of role clarity between levels of government around the responsibility for the pipeline of workers into the sector.

3.3.5 Precondition 5: Competitive Providers

Providers are **competitive** when they face contestability in the ECEC market across all major dimensions including care type, price, quality, flexibility, and volume. In practice, this requires the market to have few barriers to entry, incentives for information sharing and strong guardrails against anti-competitive conduct.

The precondition of competitive providers must be met before many of the sector's objectives can be achieved. When there is sufficient contestability in a market, providers are forced to compete for customers by making their product more desirable. In the case of the ECEC sector, this could involve a range of improvements to the care provided. For example:

- Providers could increase the volume and flexibility of care offered (e.g., offering extended after-hours care), improving the **access** of families to ECEC.
- Providers could reduce the prices of their services to attract and retain families, improving the **affordability** of child care.
- Providers may increase their service **quality**.

To increase the level of competition faced by providers, the steward can utilise several levers.

- **Information provision** by providing families with current information on all key metrics relating to ECEC (price, quality, volume etc.) so they can shop around for the best service.
- **Regulation** through restricting businesses practices that limit or prevent competition and enforcing such restrictions.
- **Integration** by coordinating with ECEC system leaders, state and territory authorities and regulatory bodies (e.g., the ACCC) to implement and enforce the 'rules of the game'.

A system mapping exercise revealed that currently **local governments and state and territory governments have a functional role** in providing non-financial supports:

- The main mechanism for providing non-financial support, specifically planning and infrastructure, is provided by state and territory policy agencies and local governments.
- Consultations with stakeholders highlighted a lack of coordination between the Department of Education's financial support and other actor's non-financial support.

There exists opportunity for the department to extend their responsibilities beyond funding to also include responsibility for oversight of settings which foster competition via non-financial mechanisms. Both financial and non-financial levers when used in combination produce a positive additive effect, driving competition within the market and encouraging providers to deliver services that are flexible, responsive, and encompassing of the wide spanning needs of families. Given the pertinent role of system leaders from state and local governments, there also exists opportunity for greater collaboration to ensure the aim of achieving and fostering ongoing competition remains the centre of focus for all stewards within the market.

3.3.6 Precondition 6: Accountable Providers

Providers are **accountable** when they are held responsible for acting with integrity and complying with the rules of the market. Holding providers to account requires effective market incentives and quality assurance mechanisms, which make it costly to undertake fraudulent behaviour.

It is important to note that this Strategy should be read in conjunction with the Child Care Financial Integrity Strategy, which sets out a more comprehensive framework for the department in addressing Family Assistance Law related non-compliance and fraud. The precondition of provider accountability must be met before the ECEC sector objectives can be achieved. For example,

- Fraudulent providers may fail to offer legitimate ECEC services to the community, reducing the **accessibility** of such services. Additionally, if families perceive providers as being fraudulent, it may undermine public trust in the sector, discouraging families from participating.
- A lack of accountable providers will reduce the **quality** of services (e.g., providers may hire educators without the proper qualifications), resulting in comprised children safety or children not reaching their potential development outcomes. If providers are held to account, then they will meet the national quality standards.
- Fraudulent providers may receive excessive funding from governments (e.g., funding for children they do not care for), increasing expenses for governments and reducing the **sustainability** of the sector.

The primary levers with which the steward can ensure providers are held to account are **regulation** and **information provision**. Although state and territory regulatory authorities currently retain direct responsibility for regulation of quality and compliance, the steward can contribute to the activities undertaken by ACECQA through setting the 'rules of the game' (i.e., deploying minimum standards and guiding principles which providers must adhere to). Further, in monitoring the ways in which providers within the market respond to the set of rules and sharing this information with ACECQA, the steward is able to establish a feedback loop of information delivery with ACECQA and respond with real-time adjustments, avoiding instances of fraud or poor compliance.

However, if the steward observes that the preconditions are not being met, then they can also intervene using the following levers:

- **Integration** by coordinating with ACEQA, Services Australia, market regulators and state and territory regulatory authorities to address instances of fraud or poor compliance.
- **Funding** through allocating funding to providers who can demonstrate integrity and strong compliance and restricting funding access to those who violate the 'rules of the game.'

A system mapping exercise revealed that currently the Department of Education plays a **minor role** in ensuring that providers are accountable:

- The Department of Education plays a role in the regulation and compliance of the ECEC providers, by taking action to remove fraudulent providers from the funding system.
- Broader mechanisms for regulating the ECEC system include the role of ACECQA and state and territory regulatory agencies in holding providers accountable for quality. ACECQA administers the NQF and accompanying NQS which guide providers' and the workforce's activity.
- State and territory regulatory authorities work with the provider sector to enact NQF and ensure compliance with the NQS. State and territory regulatory authorities have regular contact with providers and have a range of powers and tools to facilitate continuous improvement and ensure compliance with the NQF.
- The CSS is administered by Services Australia who act to ensure families receive the subsidy amount to which they are entitled.
- The ECEC market system is also regulated by the whole of economy regulation, by the ACCC and ASIC.
- Consultation with stakeholders highlighted the Department of Education's role in monitoring and coordinating quality standards across care types is unclear. Rather, stakeholders emphasised ACECQA, and state and territory regulation authorities have the majority of responsibility for managing the quality of services.

- However, it is also important to note the department's obligations as described in *Public Governance, Performance and Accountability Act 2013* and pursuant to the Fraud Rule as contained in *Public Governance, Performance and Accountability Rule 2014* s 10.

3.4 Measuring Market Performance

This Strategy sets out approaches to respond to ECEC market monitoring insights. A Market Monitoring Framework (developed separately to complement this Strategy) considers the performance of the ECEC market against the conditions which demonstrate effectiveness (as defined above).

The Market Monitoring Framework can be used to identify areas where the department can intervene to ensure intended market outcomes are achieved. This Strategy focuses on interventions to respond to the findings from ongoing market monitoring, and to develop the capabilities to invest in more comprehensive market monitoring, to strengthen policy responses.

Noting that the department already undertakes market monitoring in some forms, Table 3 considers potential measures to assess the performance of the ECEC market with respect to the system objectives set out earlier in this Strategy. The options in Table 3 represent a set of operational, point-in-time metrics to help monitor the sector's performance and assist the department in diagnosing potential issues and identifying suitable policy interventions.

Table 3: Proposed metrics for each market objectives

Accessibility	Affordability	Quality	Connectedness	Sustainability
Definition				
Service provision is sufficient in volume and flexibility to ensure that families and children are able to participate in ECEC.	Care type options are priced in a way that incentivises participation.	ECEC provision is of a high quality: students are safe, the workforce is highly capable, students are prepared educationally and families are engaged.	Service provision is connected and integrated (where appropriate) to other public services for children and families.	The ECEC sector is both financially and operationally sustainable, valued by users and adequately supported by government.
Measuring market objectives				
1. Ratio of approved child care places to population of children aged 0-5 years old in each region.	1. Out-of-pocket expense as a proportion of a family's reported income, aggregated to each region. 2. Ratio of child care cost inflation to inflation of other cost categories.	1. Proportion of services that are requiring improvement or working towards the National Quality Standard in each region. 2. Length of time services have spent at 'working toward' status. 3. Number of NQF waivers in place, by waiver type (staffing or physical environment) in each region.	1. Number of inquiries relating to information or difficulties in navigating the ECEC system. 2. Web traffic on ACECQA Starting Blocks (leveraging ACECQA analytic reports). 3. Parent perceptions on the level of system connectedness (potentially leveraging the Survey of Parents and Services). 4. Self-reported provider information on level of additional support services that are available to families.	1. Number of students enrolled in ECEC qualifications and due to complete in the next 12 months, by qualification. 2. Percentage of recent ECEC qualification graduates entering the industry. 3. Volume of ACECQA waivers for inability for services to find suitably qualified staff in each region. 4. Average ratio of labour and capital costs to total revenue by service in each region. 5. Percentage change in the no. of services and approved places in each region.
Approaches to benchmarking performance relative to the market objectives				
<ul style="list-style-type: none"> Compare metric across like regions in Australia (where likeness could include considering geographic and demographic characteristics). Identify top five regions that exhibit the largest difference in ratio compared to the median of structurally similar regions. 	<ul style="list-style-type: none"> Compare metric 1 across different regions to identify top five regions with the highest out-of-pocket expenses as a proportion of income. Examine metric 1 over time, to identify top five regions where 	<ul style="list-style-type: none"> Compare metrics 1-3 across different regions to identify top five regions with lowest performance. Compare metrics 1-3 over time to identify the top 5 regions with the largest deterioration in quality. 	<ul style="list-style-type: none"> Specific metrics would be determined based on data availability 	<ul style="list-style-type: none"> Examine metric 1-2 over time and compared to long-run average growth. Examine metrics 3-5 across different regions identifying the top 5 regions with the lowest service profitability / lowest growth in supply / most acute workforce challenges.



Accessibility	Affordability	Quality	Connectedness	Sustainability
	<p>affordability has deteriorated, and compare results across cohorts.</p> <ul style="list-style-type: none"> Examine metric 2 at a national level, setting a threshold for how closely child care inflation should follow overall inflation. Compare metrics 1 and 2 to international benchmarks 			
Analytical steps in proposed workplan				
<ul style="list-style-type: none"> Extract ABS Census and CCS data to examine the number of approved child care places and characteristics of each region in Australia. Develop a model that identifies and matches regions that share similar characteristics. Identify top five regions where the metric is most different to structurally similar regions. Future analysis should aim to estimate the level of 'latent demand' for childcare in each region, or alternatively, gain a more sophisticated understanding of the waiting lists for services. This may involve surveying families around Australia to understand potential demand for additional child care Future analysis could consider an additional supply metric examining the distance between families place of residence and available services. 	<ul style="list-style-type: none"> Extract CCS data for out-of-pocket expenses for each region in Australia, along with ABS datasets on overall inflation levels over time. <p>Identify top five regions with the highest proportion, and how regions have trended over time.</p>	<ul style="list-style-type: none"> Extract ACECQA data on quality assessments for each service over time. Analyse trends in quality ratings across regions and over time. Consider whether new data collection instruments are required to obtain a broader definition of quality. 	<p>Confirm which of the above data sets are suitable / capture the required information. New data collection methods may be required</p>	<ul style="list-style-type: none"> Extract NCVER, ACECQA, CCS and BLADE data. Examine differences across regions and trends over time. Examine level of turnover within the ECEC workforce (would likely require new data collection methods).



At each decision-making juncture, the preferred measures for the department will ultimately depend on the availability of information, including the level of granularity by which it is available, the time available to enable collection and reporting, and the cost of collecting and analysing the data. Alongside the measures in this Strategy to strengthen market monitoring, parallel analysis of the sector being undertaken to inform the ACCC Price Inquiry and Productivity Commission Inquiry may also present opportunities to extend or complement the measures presented in this section. An alternative approach is to measure the performance of the market with respect to the preconditions. Taking a similar approach to the options presented in Table 3, the following sections present potential measures of performance for the market with respect to the preconditions. Similarly, these sections seek to present options, based on the data currently collected across the sector, to measure market performance as part of developing a more complete monitoring framework.

3.4.1 Empowered Families

Families are empowered when they have sufficient buying power and are incentivised to participate in the ECEC market. To measure families' buying power several different metrics could be used, which are summarised in Table 4. Some measures, such as enrolment rates by socioeconomic status, are more rudimentary, and likely to reflect several facets of accessibility. However, more specific and direct measures, such as survey responses from families, will require more investment in order to regularly collect the relevant data.

Table 4: Empowered families

Potential measure	Explanation	Availability	Usefulness	Difficulty
Enrolment and attendance rates in services	Low enrolment or attendance rates may be symptomatic of limited affordability	CCSS	Likely to be conflated by other factors	Detailed service-level data already exists
Out of pocket expense as a proportion of the average wage	If out of pocket expenses are extremely high, this may reflect poor buying power for families	CCSS, ATO, and/or ABS	A more direct measure of affordability	Detailed service-level data already exists
Satisfaction results from a survey of families	A direct measure of how families assess their buying power	Bespoke survey required	A more direct measure of affordability	Additional manual collection is likely required

3.4.2 Informed Families

Families are informed when they can use information about care types, providers, pricing, and quality in their decision-making. There are few readily available and direct measures of how much information families have and the extent to which this information is useful for enabling choice. Families typically access information and select ECEC services based on referral or recommendation, which is hard to track. While some insights can be gained from calculating the number of families who access ACECQA materials, this measure does not signal the usefulness or utilisation of that information by families. As such, collecting survey data on families' awareness and satisfaction would provide a more direct measure of whether they are informed, and the type of information



they are seeking. A variety of potential measures from a survey are proposed below.

Table 5: Informed Families

Measure	Explanation	Availability	Usefulness	Difficulty
Number of families that access information	If few families access the information provided by ACECQA, this may reflect low awareness	ACECQA	Families may access information outside of formal sources	Some additional data collection or analysis likely required
Proportion of families that are aware of key features of provision	A direct measure of families' ECEC awareness (e.g., care types, providers in local area, cost and quality)	Bespoke survey required	A more direct measure of whether families are informed	Additional manual collection is likely required
Proportion of families that are satisfied with information shared	A direct measure of how families assess the level of information received	Bespoke survey required	A more direct measure of whether families are informed	Additional manual collection is likely required
Speed with which families respond to changes in market dynamics	Large delays in families responding to changes in key features of care (e.g., new entrants, quality) may signal poor information sharing	Bespoke study required	May be conflated by other factors	Additional manual collection is likely required

3.4.3 Supported Families

Families are supported when they face minimal non-economic costs to care (e.g., cultural barriers or poor service design). To measure the extent to which families are supported, several different metrics could be used, which are summarised in the table below.

Some measures, including enrolment rates across equity groups, can use existing data, reducing the cost of measuring performance. However, these measures may confound several factors. For example, enrolment rates among disadvantaged cohorts may be low due to the economic cost of care, not its suitability. Further, while these measures might identify issues in access for certain groups, they may not diagnose the specific barriers to participation for certain cohorts. A mix of qualitative insights is likely to be necessary to complement and aid in interpreting quantitative measures.

Table 6: Supported Families

Measure	Explanation	Availability	Usefulness	Difficulty
Enrolment and attendance rates across equity groups	Low enrolment or attendance rates among equity groups may be symptomatic of a lack of appropriate care and supports	CCSS / ROGS	High enrolment or attendance rates do not guarantee supported families	Some additional analysis required



Measure	Explanation	Availability	Usefulness	Difficulty
Proportion of families that are satisfied with supports offered	A direct measure of how families assess the supports offered. Note: insights from equity groups should be prioritised	Bespoke survey required	A more direct measure of whether families are supported	Additional manual collection is likely required
Proportion of providers that offer supports (e.g., an allied health worker)	A direct measure of the degree to which providers offer wraparound services, cultural training, etc.	Bespoke survey required	A more direct measure of whether providers offer supports	Additional manual collection is likely required
Proportion of ECEC workforce from an equity group, relative to the general population	If equity groups (e.g., First Nations peoples) aren't proportionally represented in ECEC workforce, this may create non-economic barriers	National Workforce Census	Representation does not guarantee that families from equity groups are supported	Some additional analysis required

3.4.4 Viable Providers

Assessing provider viability requires considering two dimensions:

- **Operational viability** which is achieved when providers have a capable and sustainable workforce to deliver quality services in a sustainable way.
- **Financial viability** which is achieved when providers have sufficient funding and incentives to enter and remain in the ECEC market.

To measure the extent to which providers are viable, several different metrics could be used, which are summarised below. Importantly, to develop a complete understanding of the viability of providers, a combination of measures is required. This allows the gaps in information provided by individual metrics to be filled by other measures. For example, while the supply of graduates may reflect the ability of providers to fill entry level positions, it will not provide insight into whether the sector is retaining experienced staff or capture challenges such as the intersections between new workers entering the sector and experienced staff leaving.

Lastly, it is important to note the measures outlined in Table 7 and Table 8 below apply primarily to CBDC, OSHC, and FDC, as ACECQA does not hold IHC-related data.

Table 7: Operationally viable providers

Measure	Explanation	Availability	Usefulness	Difficulty
Projected supply of graduates, relative to projected demand for workers	A low number of graduates studying ECEC related courses (relative to expected future demand) may indicate future workforce challenges.	Jobs and Skills Australia	ECEC workforce can be unsustainable for other reasons	Data already exists
Proportion of ECEC workforce with the desired qualifications	An underqualified workforce may reflect a lack of capable workers	ACECQA and Jobs and Skills Australia	There are many factors that determine a capable worker	Data already exists



Measure	Explanation	Availability	Usefulness	Difficulty
Staff turnover rate	High staff turnover could indicate that providers cannot access a sustainable workforce	Survey and ACECQA	Strong indicator of operational viability	Additional manual collection is likely required
Number of job listings, relative to size of the workforce	A large number of job listings could indicate an unsustainable workforce (e.g., high turnover, staff exiting the ECEC industry)	ABS	Depends on how granular the information is, and on timeliness	Some additional analysis required

Table 8: Financially viable providers

Measure	Explanation	Availability	Usefulness	Difficulty
Gap between the cost of providing a government-funded place and the total fees providers face	If this gap is large, the financial viability of providers may be threatened. Providers in low-income areas may be unable to charge fees high enough to cover costs.	CCSS	Providers may close the gap by increasing fees – information on pricing is needed	Some additional analysis required
Market exit rates	A large number of providers (particularly small family and not-for-profit centres) leaving the market may indicate a lack of financial viability	ACECQA and Jobs and Skills Australia	Strong indicator of financial viability	Data already exists

3.4.5 Competitive Providers

Providers are competitive when they face contestability in the ECEC market across major dimensions including care type, price, quality, flexibility, and the number of approved places. To measure the extent to which providers are competitive, several different metrics could be used, which are summarised in the table below. Recognising several different elements of competition, a range of metrics are likely to be required. For instance, while the rate of market entry and measures of market concentration offer important insights into overall levels of competition, individual features of the market (e.g., average quality ratings) should be examined to gain a full picture.

Table 9: Competitive Providers

Measure	Explanation	Availability	Usefulness	Difficulty
Market entry and exit rates	A low rate of market entry suggests that there are high barriers to entry and a lack of competition	ACECQA, Jobs and Skills Australia and State Regulatory Authorities	Strong indicator of overall levels of competition	Data already exists



Measure	Explanation	Availability	Usefulness	Difficulty
Market concentration (e.g., Herfindahl-Hirschman Index)	If a small number of companies provide the vast majority of ECEC places, this suggests the market is uncompetitive	CCSS or ACECQA	A strong proxy for overall levels of competition	Some additional analysis required
Average quality rating (by local region)	Low quality ratings in a local area suggest there is weak competition on the basis of quality	ACECQA	Indicates whether providers compete on quality alone	Data already exists, but timeliness is poor

3.4.6 Accountable Providers

Providers are accountable when they are held responsible for acting with integrity and complying with the rules of the market. Accountability is a multi-dimensional measure whereby providers are accountable for different aspects of ECEC service provision. As such, key metrics should cover a range of accountability measures, including fraudulent behaviour, reporting infringements and quality. To measure the extent to which providers are accountable, several different metrics could be used, which are summarised below. Some of these measures may represent market monitoring activity already being led by the department's integrity functions, while other measures proposed may rely on additional data collection.

Table 10: Accountable Providers

Measure	Explanation	Availability	Usefulness	Difficulty
Average time taken to identify fraudulent activity	Timely identification of fraudulent activity amongst providers	Department of Education	A strong proxy for the department's ability to respond to fraudulent activity	Internal data may exist
Providers responsiveness to incidents	Survey providers with reported incidents to assess whether actions were taken to avoid future incidents	Bespoke survey required	Strong proxy for provider accountability	Additional manual collection is likely required
Number of providers with a NQS ratings below 'Working towards NQS', not exhibiting material improvement	Minimal improvement in low NQS ratings signifies barriers to quality improvement	ACECQA	Depends on the timeliness of the NQS rating	Data already exists, but timeliness varies



4. Understanding the Functions of Government in Early Childhood Markets

A market steward's role is to coordinate market actors and shape market activity to align with system outcomes. A key part of market stewardship is defining the functions of different actors and articulating the boundaries and interconnections that exist between them. This Chapter provides an overview of the roles and responsibilities of key actors within Early Childhood Markets. This analysis has been informed by an extensive stakeholder consultation process, along with a desktop review of publicly available information. This Chapter provides an overview of the current state of the market, rather than commenting on what a revised version may look like.

4.1 Outlining Functional Groupings

A series of functional groupings have been developed to categorise and define the activities of different actors in the sector. These groupings have been informed by findings from the Institute for Government, case studies of other market stewards, and public governance theory. This section outlines the six functional groupings of actors in the ECEC system.

4.1.1 Grouping 1: Market Policy and Coordination

Market policy and coordination refers to strategic oversight of the entire system, including strategic policy development, coordination with the system steward, coordination with other stewards, and evaluation (including market monitoring). These policies commonly inform other levers, such as funding, regulation, or direct provision and service planning. Additionally, policies may focus on supporting a range of different objectives, including access, affordability, quality, connectedness, or sustainability.

Examples of activities in this function include direction or goal setting, role and responsibility allocation, and evaluation and monitoring. The actors best placed to execute these functions are those with a full system perspective, for example, government agencies.

The key system actors and their roles include:

- The department plays a role in policy, focusing on funding the sector, primarily through the CCS.
- State, territory, and local governments may implement policies aimed at supporting specific objectives. The exact nature and extent of these policies differ across jurisdictions.
- ACECQA has primary responsibility for policies relating to ECEC quality and regulations.
- Other Australian Government agencies also have policies which influence the department's activity. For example, the Department of Social Services coordinates early childhood development policy, such as the recently announced Early Years Strategy, and the Department of Employment and Workforce Relations supports policies related to the workforce to ensure the ECEC system is sustainable.

4.1.2 Grouping 2: Funding and Support

Funding and support refer to activities that boost the agency of market participants through direct financial or non-financial means. Examples of funding and support activities include government investment in technology solutions, government funding to encourage the participation of families



and children, financial support for providers (e.g., grants, or loans) and government non-financial support (e.g., programmatic intervention). The actors who are best placed to execute these functions depend on the nature of support offered. For example, broad funding or support may be suitable for the Australian Government, however bespoke or regional issues might be best handled by a state or territory government, or local government closest to the issue.

The key system actors and their role:

- The department is primarily responsible for funding through the CCS to families and provides a contribution for preschool to state and territory governments through the Preschool Reform Agreement.
- Service Australia supports the department by facilitating the provision of CCS to families (through ECEC services).
- Increasingly there are shared funding agreements between the Australian Government and states and territories. For example, the recently announced New South Wales and Victorian funding packages to provide additional years of early learning. In addition to this, state and territory governments provide program funding to support specific objectives.
- Finally, the sector fulfils a key role in implementing the CSS and passing on the subsidy as a reduction in the total fees that families pay.

4.1.3 Grouping 3: Regulation

Regulation refers to activities which set out the requirements for market participation. These activities may include establishing and amending legislation, price regulation, and administering quality standards. In addition to whole-of-economy regulation, there is ECEC sector-specific regulation.

The key system actors and their roles include:

- ACECQA, which fulfils a key function in assisting the Australian Government to administer the NQF and National Quality Standards (NQS).
- State and territory regulatory authorities are responsible for working with the sector to enact the NQF and ensure compliance with the NQS. In addition, these agencies are responsible for assessing and rating services against the NQS.
- Market regulators including the ACCC, ASIC, and ATO ensure providers' compliance with broader economy-wide competition, taxation and financial regulations.
- The Department of Education plays a supporting role in regulation and compliance by monitoring for, and taking action to remove, fraudulent providers and helping educate the sector to ensure that it understands its obligations.

4.1.4 Grouping 4: Integration

Integration refers to building and supporting connections both within the ECEC sector and with other public service actors. This may include integrating with schooling, immunisation, disability support, physical and mental health supports. Several system actors are involved in the integration of the market, including:

- The Department of Social Services, who coordinates early childhood development policy, which supports the system to be connected and integrated with other public services.
- Service Australia, who connects children and families to additional financial support, depending on their circumstances.



- Providers can also play a role in connecting the system to other market actors, by helping families understand the different support services that are available to them, and making referrals as needed. The extent to which this occurs likely varies on a provider-by-provider basis.

4.1.5 Grouping 5: Information Provision

Information provision refers to the collection and dissemination of market intelligence or resources to enable better decision-making by system actors. Several actors are involved in the information provision of the ECEC market, including:

- The department who disseminates a broad range of ECEC related information to the sector and other government agencies. For example, the department publishes the regular Childcare in Australia Report and the Childcare Provider Handbook, along with sharing policy resources with state and territory education policy agencies.
- ACECQA provides relevant guidance relating to the NQF and NQS to the Department of Education, service providers and state and territory regulatory agencies.¹¹⁵ In addition, it manages the Starting Blocks website, which provides a wide range of information on the sector for families.¹¹⁶
- Industry bodies provide research for families, researchers, and policy makers.
- The Department of Education, Department of Social Services, and Services Australia disseminate resources relating to the provision of the CCS to children and families.¹¹⁷
- Service providers are the key point of contact between families and the sector, and hence play an important role in providing information on the supports that are available and funding arrangements in place.
- Children and families provide feedback to ECEC providers regarding their services, and ECEC providers provide information about their services to families.

4.2 Functions of the Australian Government

This section focuses on the functions of Australian Government agencies that have a central role in the ECEC market, namely, the department, Services Australia, and ACECQA. Table 11 provides an overview of those Australian Government agencies.

A wide range of other Australian Government agencies, including the ACCC and ASIC have broad mandates for consumer protection and integrity that are related but not specific to the ECEC market. For the purposes of this exercise, these broader agencies have not been considered in detail.

Table 11: Functions of Australian Government agencies

System actors	Market Policy and Coordination	Funding and Support	Regulation		Integration	Information provision
Department of Education	Sets policy direction	Determines funding levels for families via the CCS (which is distributed by Services Australia).	Enacts regulation			Provides information to families, providers and other policy agencies

¹¹⁵ 'About Us', The Australian Children's Education and Care Quality Authority (2022), <<https://www.acecqa.gov.au/about-us>>





¹¹⁶ 'Find child care', The Australian Children's Education and Care Quality Authority (2022), <<https://www.startingblocks.gov.au/>>.

¹¹⁷ 'Get help with fees', Department of Education (2022), <<https://www.education.gov.au/early-childhood/get-help-fees>>



System actors	Market Policy and Coordination	Funding and Support	Regulation		Integration	Information provision
Services Australia		Distributes funding (i.e., CCS) to eligible families (via service providers).			Connects children and families to additional information and financial support including child support.	
ACECQA			Plays a major role in the regulation of quality and compliance via the administration of the NQF and leading quality improvement.			Provides resources to families, providers, and other government actors about provider quality through the National Quality Standards. ^(a)

Legend:

	Core Function: This is a primary function that the system actor undertakes.
	Secondary Function: System actors play a role in enabling this function.
	Minor function: System actors play a role in supporting this function.
	Auxiliary Function: System actors have little-to-no influence over the use of a policy lever in the ECEC ecosystem.

4.2.1 The Department of Education

The department administers the CCS to help with child care costs across four care types: OSHC, FDC, CBDC, and IHC. The amount of CCS received is dictated through policy developed by the Department of Education under the Family Assistance Law and Services Australia administers the funding.¹¹⁸

The department is also responsible for the ACCS which provides additional financial assistance to families facing barriers to childcare. The department also supports accessibility through programmatic funding interventions, such as the Community Child Care Fund (see Box 1) and Inclusion Support Program (ISP). The ISP provides support to eligible mainstream ECEC services to build their capacity and capability to include children with additional needs.¹¹⁹

The Community Child Care Fund

The department funds and administers the Community Child Care Fund (CCCF), which provides a range of grants for child care services. The CCCF aims to improve accessibility through addressing barriers to child care participation, particularly in disadvantaged, regional and remote communities, and in Indigenous communities.

The CCCF consists of:¹²⁰

- **Special circumstances grant** which funds services stay open when there is an unexpected event that impacts their ability to stay open. For example, a local emergency or natural disasters.

¹¹⁸ Sheppard M, 'Child care in Australia: a quick guide', *Parliament of Australia* (2015)

<https://www.apph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1415/Quick_Guides/Child_care>

¹¹⁹ Australian Government Department of Education, 'Inclusion Support Program Guidelines' (2022), <<https://www.education.gov.au/child-care-package/resources/inclusion-support-program-guidelines>>.

¹²⁰ 'Community Child Care Fund', *Department of Education* (2022), <<https://www.dese.gov.au/child-care-package/community-child-care-fund>>



- **Disadvantaged and vulnerable communities** grant which funds services in disadvantaged and vulnerable communities to increase the number of children accessing ECEC, and ensure the services stay open.
- **Restricted grant** which supports services in identified disadvantaged and vulnerable communities, including remote locations where there is a focus to increase participation rates of Aboriginal and Torres Strait Islander children in early childhood education and care.
- **Connected Beginnings** which provides funding for children in identified Aboriginal and Torres Strait Islander communities. It helps them prepare for school by integrating a range of services with schools including, early childhood, maternal, child health, and family support.
- **Business Support** which provides a free business review and advice service for eligible child care services. It is available to child care services experiencing financial viability or sustainability issues, particularly in disadvantaged or vulnerable communities.

Under the Preschool Reform Agreement, the Australian Government provides a per-child contribution to states and territories – approximately \$1,340 per child in 2022. The state and territories must pass on the per-child contribution to children in, regardless preschool setting (e.g., a preschool program delivered through CBDC).¹²¹

In addition to funding, the department has a lead function in:¹²²

- Commonwealth early learning policy
- Developing and implementing early policy via national agreements achieved through the National Cabinet
- Supporting the development of the Australian Government's Early Years Strategy. While the development of the strategy is being led by the Department of Social Services, the department's critical role in the ECEC sector means it is involved in the process.¹²³
- Producing and sharing guidance and resources, including disseminating national ECEC policy resources to state and territory education policy agencies.¹²⁴ Additionally, the Department of Education, Department of Social Services, and Services Australia disseminate resources relating to the provision of the CCS to children and families.
- Program administration functions such as the CCS Helpdesk.
- Regulating the sector, with a focus on integrity and accountability funding. This primarily involves supporting regulation and compliance by helping educate providers on their obligations, and monitoring for and taking action to approve and remove fraudulent actors. The Department of Education provides funding to ACECQA to lead regulation through administering the NQF.
- The role of each branch in the department is discussed further in **Appendix C**.

4.2.2 Services Australia

Services Australia administers financial assistance to eligible families to help with the costs of ECEC, such as the CCS and the ACCS.¹²⁵ The CCS and ACCS are paid generally paid directly to ECEC services to reduce out-of-pocket fees paid by families. During the stakeholder consultation process, Services Australia emphasised that they do not have direct contact with ECEC services, rather contact is through the Department of Education. Further, Services Australia connects children and families to additional financial support, depending on their circumstances.

¹²¹ 'Preschool Reform Funding Agreement', Department of Education (2022), <<https://www.dese.gov.au/child-care-package/preschool/preschool-reform-funding-agreement>>

¹²² 'Preschool Reform Funding Agreement', Department of Education (2022), <<https://www.dese.gov.au/child-care-package/preschool/preschool-reform-funding-agreement>>

¹²³ 'Early Years Strategy', Department of Social Services (2022), <https://www.dss.gov.au/families-and-children-programs-services/early-years-strategy>.

¹²⁴ 'About Us', The Australian Children's Education and Care Quality Authority (2022), <<https://www.acecqa.gov.au/about-us>>

¹²⁵ A New Tax System (Family Assistance) Act (1999).



Additionally, Services Australia is responsible for regulating the CCS and ACCS and taking action to ensure families receive the correct entitlements. In consultation, Services Australia noted that the Department of Education, not Services Australia, is responsible for compliance and monitoring ECEC service behaviour with Services Australia acting on this intelligence. Services Australia noted that there are generally low incidences of fraud or integrity issues in the sector, due to both families and providers having to verify enrolments. Further, Services Australia noted that the Department of Education does consult with Services Australia as part of policy development processes.

4.2.3 ACECQA

Under the *Education and Care Services National Law Act 2010*, ACECQA is the national authority responsible for ECEC quality, through guiding the implementation and administration of the NQF to monitoring and promoting consistency in its implementation and administration. ACECQA provides information to the Department of Education and state and territory agencies to regulate the sector, enact the NQF, and ensure compliance with the NQS.¹²⁶

On issues related to quality, state and territory regulatory agencies are providers' first point of contact; ACECQA does not directly communicate to providers. Further, ACECQA provides information and guidance to state and territory governments to:

- Implement changes that benefit children and their families.
- Monitor and promote the consistent application of the Education and Care Services National Law.
- Support the children's education and care sector to improve quality outcomes for children.

ACECQA oversees the National Quality Agenda IT System (NQA ITS) as the online administrative system for implementing the NQF. Once registered, providers use the NQA ITS to view records, submit applications and notifications and pay invoices.¹²⁷

During consultations, ACECQA noted that the responsibilities of the agency have evolved and expanded over time. For example, they noted that since 2018 they have had a more active role in areas traditionally outside their remit, such as the interaction between the ECEC workforce and quality. In 2019, the Australian Government appointed ACECQA to develop the National Workforce Strategy. Part of their role included working with service providers and industry bodies to develop and implement the strategy.¹²⁸

4.3 Functions of the States and Territories

State and territory governments' roles in the ECEC market vary across jurisdictions. Common functions performed by policy and/or regulatory agencies include:

- Providing capital and operational funding to preschool services and/or directly providing preschool services.
- Providing capital and operational funding to child care services (including services that also receive Australian Government funding), noting this differs based on the jurisdiction.
- Providing funding to support the implementation of the Preschool Reform Agreement (PRA).

¹²⁶ 'About Us', *The Australian Children's Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/about-us>>

¹²⁷ 'About Us', *The Australian Children's Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/about-us>>

¹²⁸ 'National workforce strategy', *The Australian Children's Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/national-workforce-strategy>>



- Regulating approved services under the National Quality Framework (NQF) and licensing/registering child care services not approved under the NQF.
- Implementing strategies and policies to improve the quality of ECEC programs.
- Providing curriculum and policy support and advice, as well as training and development for management and staff.¹²⁹

The roles of states and territories can be divided between their policy agencies and their regulatory authorities, noting that in some jurisdictions this could be the same agency (Table 4.3.1).

For example, in NSW the Department of Education is both the policy agency and the regulatory authority, while in WA the education policy agency is the Department of Education WA while the regulatory authority is the Department of Communities.

Table 12: Functions of State and Territories Governments

System actors	Policy and coordination	Funding	Regulation	Service provision	Information provision	Integration
State and territory education agencies	Responsible for the development of state and territory policy in ECEC.	Provides operational and capital funding to non-government service providers.			Provides resources, support, training, and development opportunities for providers.	Undertakes some programmatic activities to promote regulatory compliance
State and territory regulatory authorities			Monitors and enforces compliance with regulation, particularly as it relates to the National Quality Framework and Standards.			

Legend:

Core Function: This is a primary function that the system actor undertakes.
Secondary Function: System actors play a role in enabling this function.
Minor function: System actors play a role in supporting this function.
Auxiliary Function: System actors have little-to-no influence over the use of a policy lever in the ECEC ecosystem.

Notwithstanding these similarities, jurisdictions differ in the level of funding provided to the sector and the level of market intervention enacted. Recently, some states and territories, such as New South Wales and Victoria, have increased their level of intervention in their local ECEC markets by announcing reforms.

As discussed earlier, some state and territory education policy agencies provide additional operational and capital funding to certain ECEC providers (Table 13).

¹²⁹ Productivity Commission, *Report on Government Services 2022 – Early childhood education and care* (2022), <<https://www.pc.gov.au/ongoing/report-on-government-services/2022/child-care-education-and-training/early-childhood-education-and-care>>



Table 13: Summary of ECEC service funding by Australian, State and Territory Governments, 2020-21 (excluding preschools)

Funding provider:	Aus. Gov	NSW	Vic	QLD	WA	SA	Tas ^a	ACT ^b	NT ^c
Funded ECEC services, for service types									
Centre based day care	✓	✓	✓	✓	✓	✓	✓		✓
OSHC	✓	✓		✓	✓				
Family day care	✓				✓				✓
In home care	✓								

Notes: (a) In Tasmania, some child care services may receive funding under an annual, small capital grants (minor infrastructure) program. These services are not included in this table unless they also receive recurrent funding.
 (b) In the ACT, child care services and preschool services outside the government sector may receive support through capital grants, rental subsidies, and funding through budget initiatives. These services are not included in this table unless they also receive recurrent funding.

Source: Productivity Commission (2021)

The Australian Government does not provide funding for preschool directly to services or families. The Australian Government provides a per child contribution to states and territories to ensure that all children have access to 600 hours of quality preschool in the year before full time school. From 2022-2025, the Australian Government will provide around \$2 billion for preschool under the Preschool Reform Agreement.

States and territories have discretion as to how this funding is used to meet the needs of children and families in their jurisdiction. From 2023, states and territories must pass the Commonwealth per child contribution on to the setting in which children are enrolled. Preschool programs can be delivered in three main settings; schools, standalone preschools, and centre-based day cares. The proportion of enrolments in each setting varies between states and territories.

In addition to Commonwealth funding, all states and territories commit significant state funding to support preschool provision in the year before full time school. Some states and territories are also introducing universal access to a second year of preschool, aimed primarily at children aged three. The Australian Government currently supports around 60% of three-year-olds who access preschool in centre-based day care settings through the provision of CCS to families.



An overview of each state and territory's role in the ECEC system is provided below. Importantly, this section has been informed by publicly available information and stakeholder consultations, and may not reflect the full set of functions that each state and territory complete.

4.3.1 New South Wales

The NSW Department of Education, specifically the Early Childhood Education Directorate, is the Regulatory Authority in NSW responsible for regulating ECEC services. This regulatory responsibility includes monitoring, assessing, and rating services, along with the provision of regular feedback, review, and enforcement of compliance and approval processes. The three primary goals of NSW's regulatory activity are to:

- Raise quality and drive continuous improvement and consistency in NSW ECEC services.
- Ensure the safety, health, and wellbeing of children attending ECEC services.
- Improve the educational and developmental outcomes for children attending ECEC services.¹³⁰

Further, the Early Childhood Education Directorate administers several programs and funding streams designed to meet the goals of the Preschool Reform Agreement and the National Quality Agenda.

Recently, the NSW Department of Education increased its investment in the ECEC market. In June 2022, the NSW Government announced an investment of \$5.8 billion over 10 years to introduce universal pre-kindergarten by 2030 and encourage child care centres to expand into areas with undersupply.¹³¹ In NSW, the 2022/23 Budget commitment is a component of the nearly \$16 billion package.¹³² The package includes funding to:

- Establish the *Affordable and Accessible Childcare and Economic Participation Fund*¹³³
- Provide a workforce package supporting prospective early childhood teachers and carers¹³⁴
- Provide flexible child care for doctors and nurses¹³⁵
- Provide more affordable preschool¹³⁶
- Provide all children with a full suite of developmental checks before they start school¹³⁷
- Provide transport grants to connect students to before and after school care¹³⁸
- Invest a recurrent expense to build system stewardship capability and offer support to service providers.¹³⁹

During stakeholder consultations the NSW Department of Education noted that traditionally the Australian Government has been responsible for services under the Family Assistance Law, with the state and territories responsible for preschool and kindergarten services. However, they noted that there is now the desire for the state to bring to a more integrated approach to place-based, system thinking for children zero to five years of age.

Stakeholders also noted that with recent announcements, there has been a shift in thinking about 'levers' and the responsibility of the NSW Government. For example, they noted that supporting workforce issues has become a more important lever. Further, as the NSW Government invests

¹³⁰ 'Regulation Requirements', NSW Department of Education (2022), <https://education.nsw.gov.au/early-childhood-education/investigation-feedback-and-complaints/regulation-assessment-and-rating>

¹³¹ 'Unprecedented childcare boost for families', NSW Department of Education (2022), <https://www.nsw.gov.au/media-releases/budget-2022-affordable-childcare>

¹³² NSW Government, *Early learning revolution under way in NSW* (2022), <<https://www.nsw.gov.au/media-releases/early-learning-revolution-under-way-nsw>>

¹³³ NSW Government, *Unprecedented childcare boost for families* (2022), <<https://www.nsw.gov.au/media-releases/budget-2022-affordable-childcare>>

¹³⁴ NSW Government, *Supercharging the early childhood workforce and sector* (2022), <<https://www.nsw.gov.au/media-releases/budget-2022-childcare-staff>>

¹³⁵ NSW Government, *Flexible childcare for our doctors and nurses* (2022), <<https://www.nsw.gov.au/media-releases/flexible-childcare-for-our-doctors-and-nurses>>

¹³⁶ NSW Government, *Affordable preschool for all NSW families* (2022), <<https://www.nsw.gov.au/media-releases/affordable-preschool-for-all-nsw-families>>

¹³⁷ NSW Government, *A brighter beginning for all NSW children* (2022), <<https://www.nsw.gov.au/media-releases/a-brighter-beginning-for-all-nsw-children>>

¹³⁸ NSW Government, *Securing before and after school care* (2022), <<https://www.nsw.gov.au/media-releases/securing-before-and-after-school-care>>

¹³⁹ NSW Government, *Early learning revolution under way in NSW* (2022), <<https://www.nsw.gov.au/media-releases/early-learning-revolution-under-way-nsw>>



more in the sector, they noted that this investment should be used to encourage quality and not fraudulent behaviour.

The NSW Department of Education also noted that they have made a commitment to enhance their stewardship approach to invest more in the management of data. They shared that this would involve collecting more detailed data from local markets to try and gain a deeper understanding of the needs of the sector.

4.3.2 Victoria

Recently, the Victoria Department of Education and Training (DET) increased its investment in the sector. In June 2022, the Victorian Government announced an investment of \$9 billion over 10 years to make kindergarten free for children aged three and four years old, delivering universal pre-prep for 4-year-olds, and establishing 50 government-operated child care centres.¹⁴⁰ This will include:¹⁴¹

- Making kindergarten free across Victoria (for 3- and 4-year-olds).
- The delivery of a year of universal pre-prep for 4-year-olds.
- Establish 50 government-operated child care centres.
- Provision of *Building Blocks: Three-Year-Old Kindergarten Infrastructure Strategy* grants
 - This represents a \$1.7 billion investment over the next decade towards early childhood infrastructure.
 - Building Blocks replaces a number of other grant schemes, making it easier for the sector to seek state co-investment in their facilities, and aims to ensure Victoria has the early childhood infrastructure it needs to meet demand.¹⁴²

During stakeholder consultations, DET noted they are moving towards being more active in the market. For example, they have made agreements with local governments and providers to use supply and demand data to better understand which services have the capacity for expansion. DET stakeholders noted that they work with these partners to ensure adequate supply through investments in infrastructure, workforce supply, and quality regulation.

Additionally, DET is the regulatory authority in Victoria and is responsible for administering the National Quality Framework for the ECEC sector in Victoria. Specifically, DET is responsible for:

- Granting service and provider approvals
- Carrying out the quality assessment and rating process
- Making sure ECEC services meet the requirements of the National Law and National Regulations.¹⁴³

4.3.3 Queensland

The Queensland Department of Education (QLD DoE) is the regulatory authority and policy agency responsible for ECEC in Queensland.

¹⁴⁰ Premier of Victoria, *Best Start, Best Life: Early Childhood Education That Works* (2022), < <https://www.premier.vic.gov.au/best-start-best-life-early-childhood-education-works> >

¹⁴¹ Premier of Victoria, *Best Start, Best Life: Early Childhood Education That Works* (2022), < <https://www.premier.vic.gov.au/best-start-best-life-early-childhood-education-works> >

¹⁴² Victorian Government, *Building Blocks* (2022), < <https://www.education.vic.gov.au/Documents/childhood/providers/funding/20-%20053%20Building%20blocks%20-3YO%20infrastructure%20V8.pdf> >

¹⁴³ 'National Quality Framework', Victoria Department of Education and Training (2022), <https://www.education.vic.gov.au/childhood/providers/regulation/Pages/nqf.aspx>



As the regulatory authority, QLD DoE is responsible for administering the NQF in Queensland. It is also the regulatory authority for services captured under the *Education and Care Services Act 2013*. Specifically, the QLD DoE approves, licenses, and regulates ECEC services in Queensland, including:

- Reviewing and approving provider and service applications under National Law.
- Assessment and rating of services
- Managing compliance and enforcement actions
- Complaints management.¹⁴⁴

The QLD DoE also provides funding to services to support the provision, accessibility, and equity of ECEC services. This includes the:

- Queensland Kindergarten Funding Scheme (QKFS) which aims to assist ECEC services and kindergartens with the cost of implementing and delivering an approved learning program. There are various subsidy payments available under the QKFS, including the standard per child subsidy, rural and remote subsidies, low socio-economic subsidies, and QKFS Plus Kindy support subsidy.
- Kindergarten Inclusion Support Scheme (KISS) which supports kindergarten services to provide inclusive programs. KISS is provided to kindergarten services via their nominated Central Governing Bodies, who administer the funding on behalf of their member services.
- Early Years Services (EYS) funding which are grants to small local services and statewide organisations to support services in rural, remote, and high-growth communities.¹⁴⁵

Additionally, the QLD DoE:

- Drives ECEC reforms in QLD including the NQF and universal access to early childhood education through funding and inclusion initiatives.
- Promotes successful transitions from home to early childhood education to school through the development of resources, guidance, and pedagogies.
- Invests in evidence-based research to support learning and development.¹⁴⁶

During stakeholder consultations, the QLD DoE noted that they have been considering stewardship in the market and are struggling to understand the role they should play. For example, they discussed whether building workforce capability is a federal or state responsibility.

Further, QLD DoE noted they intervene in the market where there has been a clear failure, for example where no provider is willing to enter a high demand location. There was consideration whether QLD DoE should intervene in the ECEC market, but they noted they have made a conscious decision to focus their attention on preschool and kindergarten services to support children with preparation for schooling.

4.3.4 Western Australia

In WA, the majority of ECEC services are delivered through preschools or kindergartens that are integrated with primary schools. The Department of Education WA is responsible for developing preschool and school policy and provides funding for universal access to kindergarten in public schools, and paying, on average, 75 per cent of the cost of kindergarten in non-government schools.¹⁴⁷ Children accessing kindergarten in CBDC settings do not receive any subsidy from the WA

¹⁴⁴ 'Early Childhood Education and Care - What we do', Queensland Department of Education, (2022), <https://earlychildhood.qld.gov.au/about-us/what-we-do>

¹⁴⁵ Ibid.

¹⁴⁶ Ibid.

¹⁴⁷ 'Two years are better than one', Mitchell Institute (2016), <https://www.vu.edu.au/sites/default/files/factsheet-kindergarten-two-years-better-than-one-wa-mitchell-institute.pdf>



Government.¹⁴⁸ However, this will change in 2023 under the Preschool Reform Agreement (PRA), with funding going to every child regardless of the setting where the child attends a preschool program.¹⁴⁹

In Western Australia, the Education and Care Regulatory Unit in the Department of Communities is the regulatory authority for ECEC. It is responsible for:

- Assessing applications for provider approvals and service approvals under National Law.
- Assessing ECEC services against the National Quality Standards.
- Supporting and promoting continuous quality improvements in ECEC services.
- Investigating incidents and complaints.
- Monitoring and enforcing compliance.¹⁵⁰

In Western Australia there are two regulatory schemes. The majority of ECEC services in Western Australia are covered by the *Education and Care Services National Law (WA) Act 2012* and *Education and Care Services National Regulations 2012*. Family day care, centre-based day care and outside school hours care services are regulated by the National Law. Additionally, a small number of services in WA, including occasional (casual) care services, and mobile services are covered by the *Child Care Services Act 2007*, *Child Care Services Regulations 2007*, and *Child Care Services (Child Care) Regulations 2006*.

4.3.5 South Australia¹⁵¹

In South Australia, the Department for Education is the policy agency responsible for ECEC while the Education Standards Board is the regulatory authority. South Australia has one regulatory system for ECEC services, legislated in the *Education and Early Childhood Services (Registration and Standards) Act 2011 (SA)*, which incorporates the *Education and Care Services National Law (South Australia)*.

In South Australia, regulation is carried out by the Education Standards Board, which is responsible for regulating the provision of ECEC services. Overall, the main functions of the Education Standards Board in the ECEC market in South Australia are:

- Approving ECEC services.
- Assessing and rating ECEC services.
- Educating about compliance with the law.
- Taking action if providers are not complying with the law¹⁵².

Limited information regarding South Australia's policy agency is publicly available.

The South Australian Government has recently announced a Royal Commission into the ECEC sector aimed at investigating how ECEC can support the first 1000 days of a child's life and how universal quality preschool could be delivered for three- and four-year-olds in South Australia.¹⁵³

¹⁴⁸ 'Two years are better than one', *Mitchell Institute* (2016), <https://www.vu.edu.au/sites/default/files/factsheet-kindergarten-two-years-better-than-one-wa-mitchell-institute.pdf>

¹⁴⁹ 'Agreement with Commonwealth secures \$190 million preschool funding for WA families', *Ministers' Media Centre* (2022), <https://ministers.dese.gov.au/robert/agreement-commonwealth-secures-190-million-preschool-funding-wa-families>

¹⁵⁰ 'Education and Care Regulatory Unit', *WA Government* (2022), <https://www.wa.gov.au/organisation/department-of-communities/education-and-care-regulatory-unit>

¹⁵¹ Please note there is limited publicly available information regarding the role of South Australia's government in the ECEC market.

¹⁵² 'Our role', *Education Standards Board* (2022), < <https://www.esb.sa.gov.au/about-us/our-role> >

¹⁵³ Royal Commission into Early Childhood Education and Care, 'Terms of reference' (2022), <<https://www.royalcommissionecec.sa.gov.au/what-is-the-royal-commission/about>>



4.3.6 Tasmania

In Tasmania, the Education and Care Unit (ECU) within Department for Education, Children and Young People is both the regulatory authority and policy agency.

The ECU is responsible for the implementation of the National Quality Framework (NQF), including the administration of the *Education and Care Services National Law (Application) Act 2011* in Tasmania.¹⁵⁴ ECEC services are regulated and approved under the *Education and Care Services National Law Act 2010* (National Law) and the *Education and Care Services National Regulations* (National Regulations).¹⁵⁵ Additionally, the ECU is responsible for approving, licensing and regulating several child care services under the *Tasmanian Child Care Act 2001* and State Licensing Standards.¹⁵⁶

During stakeholder consultations the ECU noted that they focus on supporting child development and educational outcomes through their regulatory functions. They noted that a current focus of the unit is ensuring that quality ratings are contemporary and reflective of current performance, rather than being outdated from a previous NQF audit. Stakeholders from the ECU noted when introducing more regulatory activities, they need to find the balance so that any additional cost to a service is not passed on to families, with affordability of ECEC being a focus of the agency.

Additionally, the ECU stakeholders discussed their focus on building trusting relationships with local communities and services to ensure they can work collaboratively with them to raise quality standards. They also noted that this can promote greater visibility in the market, allowing them to be more proactive in keeping services and providers accountable.

The ECU also provides funding to support the development of quality early learning services through a grants program. A range of grants are available including capital grants for minor infrastructure updates, recurrent grants for operational costs, and project grants. The grants program aims to:

- Support the provision of safe, inclusive, high-quality education and care to Tasmanian children, particularly those disadvantaged by geographic or socio-economic circumstances.
- Encourage initiatives that support the Tasmanian education and care workforce, including projects targeted toward enhancing skills and leadership.
- Promote initiatives that aim to increase community understanding regarding the importance of high-quality education and care for children.¹⁵⁷

Additionally, the Department for Education, Children and Young People develops policies that guide the operation of the ECU.¹⁵⁸

¹⁵⁴ 'Enhancing positive outcomes for children by promoting high quality education and care', *Tasmanian Government*, 2022, <https://educationandcare.tas.gov.au/about-us/>

¹⁵⁵ Ibid.

¹⁵⁶ 'Enhancing positive outcomes for children by promoting high quality education and care', *Tasmanian Government*, 2022, <https://educationandcare.tas.gov.au/about-us/>

¹⁵⁷ Ibid.

¹⁵⁸ Ibid.



4.3.7 Australian Capital Territory

The ACT Education Directorate is the regulatory authority and policy agency for ECEC in the ACT.

The Children's Education and Care Assurance team within the ACT Education Directorate is responsible for the investigation, compliance, enforcement, and assessment and rating functions of ECEC services against the National Quality Standard.¹⁵⁹

The ACT Education Directorate's Early Childhood Policy team oversees policy development and implementation for ECEC in the ACT, including *Set up for Success: An Early Childhood Strategy for the ACT* (Set up for Success).¹⁶⁰ Set up for Success is a ten-year plan for ECEC in the ACT. The goals of Set up for Success are to:

- Support high-quality, accessible, and affordable ECEC service delivery.
- Connect with other education, community, and health services.
- Be able to meet every child's needs.¹⁶¹

Under the Set up for Success strategy, the ACT Government has also committed to providing 15 hours per week, 600 hours per year of ECEC for all three-year-old children in the ACT.

Stakeholders from the ACT Education Directorate noted that it has been funding CCS services based on a daily rate, using Report on Government Services (RoGS) data to look at the average cost for services in the ACT. Further, stakeholders noted that the ACT Education Directorate has agreements in place with some services to purchase places for vulnerable children as part of their targeted 3-year-old preschool program.

4.3.8 Northern Territory

Quality Education and Care Northern Territory (QECNT) is the regulatory authority responsible for administering the National Quality Framework in the Northern Territory. Its key roles include monitoring compliance, conducting assessment and quality rating visits, and undertaking incident and complaint investigations.¹⁶²

During stakeholder consultations the NT Department of Education noted that its functions consist of supporting strategic national priorities, such as the PRA, resolving operational issues in chartered family centres, maintaining regional relationships), negotiating new agreements and dealing with funding arrangements.

The NT Department of Education also interacts frequently with the Australian Government regarding unregulated services (i.e., those services receiving CCCF payments). The interactions were described as focusing on how the NT department can collaborate more effectively to bring unregulated services under the NQF to enable consistency across the NT. Stakeholders also noted that the NT is different from other jurisdictions as they have many unregulated ECEC services that do not fall under the NQF. While other jurisdictions have certain legislation that cater to unregulated services, stakeholders noted that the NT does not have any way of formally enforcing and assessing quality.

¹⁵⁹ 'The ACT's Early Childhood Education and Care Sector', ACT Education Directorate (2022), <https://www.education.act.gov.au/early-childhood/the-acts-early-childhood-education-and-care-sector>

¹⁶⁰ Ibid.

¹⁶¹ 'Set up for Success: An Early Childhood Strategy for the ACT', ACT Education Directorate (2022), <https://www.education.act.gov.au/early-childhood/set-up-for-success-an-early-childhood-strategy-for-the-act>

¹⁶² 'Quality Education and Care NT', NT Department of Education, (2022), <https://education.nt.gov.au/committees,-regulators-and-advisory-groups/quality-education-and-care-nt>



The NT Department of Education also plays a role in policy and programmatic interventions for remote children and families, including the development of education and learning programs, such as Family as First Teachers, and child and family centres.¹⁶³ These programs are generally aimed at providing additional supports to families (such as access to reading books, nutrition advice and referrals to other support services) to better enable remote families to participate in services.

4.4 Functions of providers

This Section focuses on the functions of service providers (Table 4.4.1).

Table 14: Functions of the Sector

System actors	Policy and coordination	Funding	Regulation	Service provision	Information provision	Integration
Service providers		by receiving and reporting funding from government as a co-payment for families under the CCS; providers facilitate access for families		Across a diversity of care types, service providers are responsible for delivering ECEC services.	Providers play a major role in guiding other market actors, through mandatory reporting and other operations (i.e., marketing).	Providers connect the system to other market actors, through mandatory reporting of serious incidents, complaints, and abuse.

Legend:

Core Function:	This is a primary function that the system actor undertakes.
Secondary Function:	System actors play a role in enabling this function.
Minor function:	System actors play a role in supporting this function.

Approved ECEC services are delivered through a mix of for-profit, not-for-profit and local government providers. The key functions of service providers include:

- Delivering ECEC services.
- Passing on the CCS to families as a fee reduction.¹⁶⁴
- Complying with regulations.
- Under the National Laws and Regulations providers also play a role in connecting the system to other market actors, through mandatory reporting of serious incidents, complaints, and abuse.
- Providing information to the government through consultation and data collection to support policy processes.^{165,166,167}
- Providing information about their services to families and children.
- During stakeholder consultations some ECEC service providers noted that they have additional functions, including the delivery of training as Registered Training Organisation and facilitating connections for families to wrap around supports, such as connecting families to allied health services.

¹⁶³ 'Early childhood support for remote children and families', NT Department of Government (2022), <<https://nt.gov.au/learning/early-childhood/early-childhood-support-for-remote-children-and-families>>

¹⁶⁴ 'Child Care Subsidy', Services Australia (2022), <<https://www.servicesaustralia.gov.au/child-care-subsidy>>

¹⁶⁵ 'About the ACCC', Australian Competition and Consumer Commission (2022), <<https://www.accc.gov.au/about-us/australian-competition-consumer-commission/about-the-accc>>

¹⁶⁶ 'Our role', Australian Securities and Investment Commission (2022), <<https://asic.gov.au/about-asic/what-we-do/our-role/>>

¹⁶⁷ 'Child Care Subsidy - Your family income estimate', Services Australia (2022), <<https://www.servicesaustralia.gov.au/your-family-income-estimate-for-family-assistance-payments?context=41186>>



4.5 Understanding System Connectedness

Stakeholder consultations highlighted that there are several aspects of the ECEC market which lack role clarity. For example, representatives from both the department and state and territory governments highlighted how they often did not have good oversight of the operations of other jurisdictions, and how this could create confusion. These stakeholders also noted how there are significant responsibility gaps within the system, with a lack of clarity over which agency was responsible for key issues such as workforce shortages or affordability concerns.

This lack of role clarity also manifested itself as limited coordination in the collection and sharing of data across the ECEC system. For example, representatives from the department and other Australian Public Service agencies noted how data collected across a child's journey with the ECEC system such as, which services they were enrolled in and what outcomes they achieved, were not effectively shared or analysed. This lack of data sharing has the potential to both limit policymakers' ability to make evidence-informed decisions, and providers' ability to understand and respond to the needs of families. Stakeholders noted how the existing administrative relationship whereby Services Australia is responsible for administering the CCS and collecting the required data, while the department is responsible for managing CCS policy can create inefficiencies.

However, other stakeholders noted that the collection and sharing of Commonwealth data is subject to what is permissible under Family Assistance Law, the Privacy Act, and other relevant legislation. These stakeholders asserted that it is this legislation, rather than a lack of role clarity, that is the major factor impacting the collection and sharing of data across the ECEC system.

Stakeholder consultations with consumer groups and providers highlighted that there can be a lack of coordination between ECEC services and related support services providing health, disability, and developmental support. This can have several negative consequences, including an increased administrative burden on families who are required to supply the same data and navigate multiple systems; a lack of consistency in the care that children receive if multiple experts working with the same child are not able to effectively share information; and an increased likelihood that vulnerable children do not receive the full range of support they require if referrals and linkages to other systems are not made.

The potential challenges and benefits associated with providing integrated delivery models in the ECEC sector have been widely studied. For example, it has been noted that ECEC provides a unique opportunity to provide a non-stigmatised entry point for families to receiving a wide range of additional support services that may be necessary to strengthen a child's learning and development. Notwithstanding this, it is clear that effective integrated care models require clear governance arrangements, leadership and interdisciplinary professionals.



5. Identifying Opportunities to Strengthen and Grow Early Childhood Markets

5.1 Strategic Opportunities

Responding to the current state analysis, including the consultation series, this Market Strategy identifies a series of opportunities which may guide the department's future interventions as a steward over the CCS market. The opportunities and supporting analysis contained in this strategy (see Policy Catalogue) are intended to provide an evidence base and set of information to assist the department in briefing government on the key decisions to be made, and potential options.

The individual policy opportunities vary in scope and depth. For example, some opportunities relate to more immediate, internal changes, such as improvements to data collection and market monitoring processes. At the other end of the spectrum, some opportunities propose larger scale reforms, including scoping studies for alternative funding models.

While all policy changes focus on opportunities to improve the performance of CCS markets through a stewardship lens, some opportunities have implications for the broader ECEC system and might be influenced by the findings of the ACCC Inquiry Report (due to be completed in late 2023) and the Productivity Commission Inquiry into the sector (due to be completed in 2024).

This Strategy organises the more detailed policy opportunities into five 'strategic opportunities' or implementation phases, each representing different types of interventions and improvements, and considering the need to sequence activity. For instance, initial phases relate to strengthening the information collected about the system, which can inform later phases which including system reviews and reforms.

The five strategic opportunities are illustrated in Figure 6, and involve pursuing:

- 1. Coordination and clarity on current market interventions**

The opportunities in this phase can be undertaken immediately and relate to ensuring clarity in the department's role within the CCS markets, relative to other stakeholders. Specific opportunities relate to establishing frameworks and data collection tools which direct policy interventions, including how the department works with jurisdictions to shape markets and identifying immediate actions which the department, as a steward, can take ensure the effectiveness of CCS care types.

- 2. A comprehensive evidence base to inform market shaping**

This phase comprises opportunities to expand market monitoring to better understand the market. This includes provider competition, the reasonable and efficient costs of delivery, and supply and demand levels at a local level. This also includes better understanding the needs of families in the CCS market.

- 3. A view on the effectiveness of policy settings**

This third phase comprises opportunities to assess the performance of the current design of the CCS model, including supports for families and communities with additional needs, and those in thin markets. These reforms take a stewardship lens to consider the performance of the CCS in the context of whether families' needs are sufficiently supported, and how interventions to



support the workforce can be developed. They also suggest renaming the CCS to encourage families to participate in formal ECEC markets.

4. A set of reforms to funding model design

Where opportunities in phase 3 present opportunities to review current practice, this phase, which would be undertaken following the release of the *ACCC Inquiry Report* and the *Early Years Strategy*, comprises opportunities to redesign the CCS and CCCF to support innovative provision models in thin markets, and in communities with distinct cultural needs.

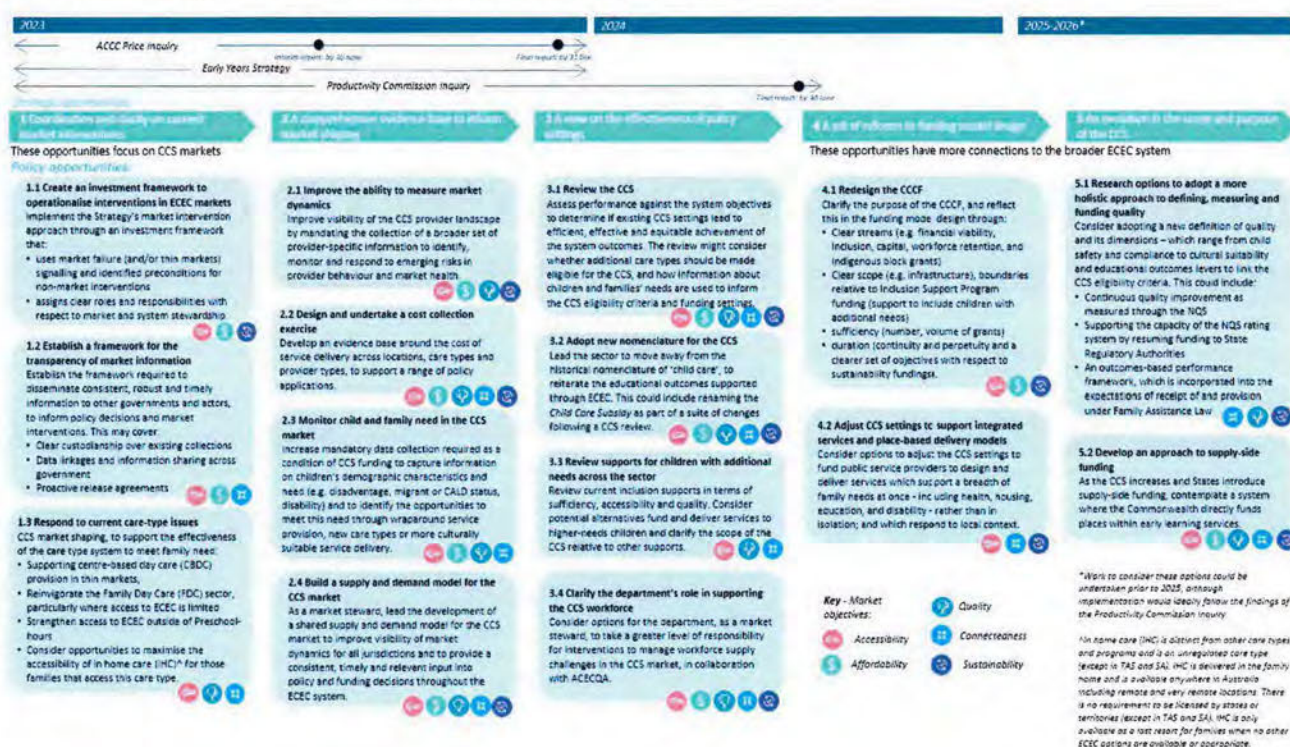
5. An evolution in the scope and purpose of the CCS

This final stage comprises opportunities to consider alternative options to funding provision. These opportunities to research options include outcomes-based and/or supply-side funding as alternatives to the CCS may constitute a change in the department's investment to actively signal the role of the sector in supporting children's educational and social development. The approach to considering these opportunities may be informed by the findings of the Productivity Commission Inquiry and the policy direction set out in the *Early Years Strategy*.

The opportunities can also be analysed with reference to the system objectives they each support: that is, accessibility, affordability, quality, connectedness, and sustainability (see icons in Figure 6).



Figure 5: Potential market stewardship opportunities for the Australian Government Department of Education



5.2 Policy Catalogue

Within each of the strategic opportunities or phases, 2-4 more specific policy opportunities are defined. Attachment A sets out a detailed catalogue which describes these 15 potential policy reforms in detail, including:

- An **overview** of the proposed scope and high-level activities which comprise each opportunity
- The intended **benefits** of taking action to implement each opportunity.
- The **related policy opportunities** within this strategy, and within the broader ECEC system context which reflect contingencies or key enablers of each opportunity.
- The **rationale** for proposing the opportunity including the market objectives which each opportunity supports
- The **findings from consultations** with stakeholder which motivate and contextualise the proposed policy opportunities
- The **levers** (funding, information provision, policy and collaboration, regulatory change) which are required to implement the opportunity
- The key **stakeholders** involved in or affected by the proposed policy change
- The **initial steps** required of the department to pursue the opportunity
- A series of **implementation considerations** which can be used to prioritise the opportunities with respect to potential impact, risk and cost, and the parallel policy changes which may influence how the opportunity is implemented.

5.3 Prioritisation

While these opportunities provide a range of options for the department to consider, they are not intended to represent a detailed roadmap or operational plan for implementation. In each case, further investigation, consultation, and research would be required before reforms could be implemented. An investment framework may be required to prioritise actions in response to this list of opportunities.

For many opportunities, the specific implementation approach could be derived from a spectrum of options, depending on the level of intervention the department seeks, the options which market monitoring supports, and the levers which the department may wish to use. For instance, the opportunity to investigate the potential to link funding to quality ratings could be implemented through a range of levers, such as through additional funding or grants, or changes to the eligibility criteria for receiving the CCS.



6. Agreeing Next Steps

6.1 The Changing Policy Landscape

The ECEC system is currently undergoing another period of considerable change driven by a growing recognition of the importance of the sector in delivering economic (through workforce participation) and educational outcomes. This, along with the shifting roles of system actors and the acute disruption of the COVID-19 pandemic, highlights the importance of ECEC as a social safety net. Beyond this, there has been a pivot in the discourse within the sector, with growing calls for a stewardship approach to coordinate and manage the actions of different system actors.

While the consultation series which informed the policy options presented above was broad ranging, the evidence may reflect the challenges faced by only a sample of ECEC sector participants and reflects evidence available at a point in time. In particular, the consultation series was undertaken prior to the release of clearer information about the ACCC and Productivity Commission inquiries, and the development of the Australian Government's *Early Years Strategy*.

All three of these initiatives could influence the prioritisation and scope of the opportunities presented in this strategy:

- The **Early Years Strategy** aims to create a new integrated, holistic, whole-of-government approach to ensure children aged five years and below have the best start at life in their critical early years of development.¹⁶⁸ To be developed by the Minister for Social Services and the Minister for Early Childhood Education and Minister for Youth, the strategy may inform the extent to which the Department of Education, as a market steward considers its role within the broader system and set of objectives related to children's wellbeing and development.
- The **ACCC Price Inquiry** will consider the rising costs of ECEC and the impact and the effectiveness of existing price regulation mechanisms. With a Terms of Reference that includes considering the costs and prices in the sector, factors affecting demand, supply, and competition, the ACCC Price Inquiry findings could inform improvements to the department's CCS market monitoring and market shaping interventions.¹⁶⁹
- The **Productivity Commission** will conduct a comprehensive inquiry into Australia's ECEC system.¹⁷⁰ The findings of the ACCC Price Inquiry will feed into this inquiry. The PC inquiry may inform a change in ECEC policy settings, which would influence the department's market shaping activity.

In addition to this changing context at a national level, state and territory governments are seeking to intervene in their ECEC systems, with the primary objectives of increasing the volume of provision and addressing market failures. For instance:

- In June 2022, the **Victorian and New South Wales** governments announced a 'Joint Commitment to Transform Early Education' in which they committed to providing an additional year of play-based learning for all children before they go to school.¹⁷¹ To enable this, both states

¹⁶⁸ Department of Social Services, 'Early Years Strategy' (2022), <<https://www.dss.gov.au/families-and-children-programs-services/early-years-strategy>>.

¹⁶⁹ Australian Competition and Consumer Commission, 'Childcare inquiry' (2022), <<https://www.accc.gov.au/focus-areas/inquiries-ongoing/childcare-inquiry>>.

¹⁷⁰ Department of Education, 'Cheaper Child Care' (2022) <<https://www.education.gov.au/early-childhood/cheaper-child-care#toc-productivity-commission-review>>.

¹⁷¹ Premier of Victoria, 'Joint Commitment to Transform Early Education' (2022), <<https://www.premier.vic.gov.au/joint-commitment-transform-early-education>>.



announced major new funding packages along with targeted workforce and infrastructure initiatives.

- The **South Australian** government has recently announced a Royal Commission into the ECEC sector aimed at investigating how ECEC can support the first 1000 days of a child's life and how universal quality preschool could be delivered for three- and four-year-olds in the South Australia.¹⁷²
- Both the **Queensland** and **Western Australian** governments have announced additional funding packages to help attract and retain more ECEC educators and improve equity in the sector.^{173, 174}

6.2 Sequencing

Given the dynamic nature of this policy landscape, the Strategy is centred on applying market stewardship principles that can be drawn on to consider opportunities to improve the management of the CCS system. This approach has been adopted to ensure that the Strategy is practical and has enduring value regardless of the policy landscape.

The suite of 15 policy opportunities set out in Figure 6 is set out against a stylised three-year timeline to 2026. While the pursuit and timing of each opportunity will depend on the priorities of the department and the Australian Government, this sequencing aims to consider the contingencies associated with a changing policy landscape, and the relationships between opportunities.

6.2.1 2023 to 2024

Phase 1, *'Coordination and clarity on current market interventions'* focuses on collecting the data establishing shared frameworks to inform immediate market interventions. These opportunities could be implemented in 2023 and are not contingent on the findings of the upcoming ACCC Price Inquiry or Productivity Commission Inquiry.

Similarly, Phase 2, *'A comprehensive evidence base to inform market shaping'*, includes actions to strengthen the evidence base used by the department to inform market shaping activity. While the ACCC Price Inquiry and PC Inquiry will gather and analyse information at a point in time, the opportunities within this phase involve a more dynamic, regular collection of sector data over time, and can be developed in parallel with the reviews.

6.2.2 2024 to 2025

Opportunities within Phases 3 and 4 of the Strategy relate to reviewing and redesigning components of the CCS funding model. These decisions would ideally be informed by the data collected as part of the preceding opportunities, and external reviews. For instance, the findings of the ACCC Price Inquiry may also inform the Terms of Reference for a CCS review, to minimise duplication and ensure relevance. Similarly, the Early Years Strategy could inform the areas of focus for a redesign of supports provided to families with higher needs or those in thin markets.

Reflecting these contingencies, a time period for implementation of 2024 to 2025 is proposed for these phases, to account for the completion of the external reviews and development of stronger

¹⁷² Royal Commission into Early Childhood Education and Care, 'Terms of reference' (2022), <<https://www.royalcommissionecec.sa.gov.au/what-is-the-royal-commission/about>>

¹⁷³ The Queensland Cabinet and Ministerial Directory, 23 February 2022, <https://statements.qld.gov.au/statements/94528>.

¹⁷⁴ Western Australian Government Media Statements, 'Industry partnership to grow early childhood education and care workforce' (2022), <<https://www.mediastatements.wa.gov.au/Pages/McGowan/2022/10/Industry-partnership-to-grow-early-childhood-education-and-care-workforce.aspx>>.



market monitoring databases. Analysis to define, assess and pilot opportunities may take place prior to the release of the final report of the Productivity Commission Inquiry, though implementation processes could be contingent on policy settings in the CCS market at the time, which suggests a need to understand the implications of this review prior to making permanent changes to the market.

6.2.3 2025 onwards

The final phase in this Strategy comprises opportunities to consider *'an evolution in the scope and purpose of the CCS'*. These opportunities take the form of scoping and feasibility studies, which would be best informed by the findings of both the ACCC Price Inquiry and PC Inquiry. While analysis to consider and trial these options could be undertaken prior to 2025, any implementation would ideally follow the findings of the Productivity Commission Inquiry to ensure the solutions are designed to meet contemporary challenges in the sector.





Australian Government
Department of Education

Policy Opportunities Catalogue

Attachment to the ECEC Market Strategy



An overview of the opportunities

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The proposed opportunities represent specific policy reforms or interventions that the department could implement in pursuit of the system objectives of access, affordability, quality, system connectedness and system sustainability.

Responding to the current state analysis, the Market Strategy identifies a series of high-level stewardship opportunities for the department's consideration.

This Strategy organises the opportunities into five phases, representing different types of interventions and improvements, and considering the need to sequence activity to account for contingencies between opportunities. The five strategic opportunities include:

1. **Coordination and clarity on current market interventions:** comprising opportunities to better understand and align current market interventions in the ECEC system.
2. **A comprehensive evidence base to inform market shaping:** comprising the potential opportunities to ensure the information collected in the system can inform sophisticated and localised market shaping.
3. **A view on the effectiveness of policy settings:** comprising opportunities to assess the performance of the design of current ECEC policy settings, including the CCS, assistance for children with additional needs, and supports for the workforce.
4. **A set of reforms to funding model design:** comprising opportunities to consider alternative options to funding provision through the CCS, such as discrete funding for place based interventions and integrated service delivery models.
5. **An evolution in the scope and purpose of the CCS:** comprising opportunities which consider possible evolutions the CCS, including adopting a more holistic approach to quality or developing a supply-side funding.

Under these five headings, 18 proposed opportunities represent specific policy reforms or interventions that the department could implement in pursuit of these higher-level goals.

Ultimately, the decision as to whether and how these opportunities are implemented is a decision for Government.

- The opportunities and supporting analysis contained in the Strategy is intended to provide an evidence base and set of information to assist the department in briefing Government on the key decisions to be made and potential options at their disposal.
- The opportunities proposed respond to the issues identified through the consultation series, which reflects evidence available at a point in time. While the consultation series was broad-ranging, the evidence may reflect the challenges faced by only a sample of ECEC sector participants that were involved in the consultation process.
- While these opportunities provide a range of options for the department to consider, they are not intended to represent a detailed roadmap or operational plan for implementation. In each case, further investigation, consultation and research would be required before reforms could be confidently implemented. An investment framework may be required to prioritise actions in response to this list of opportunities.

To support the decision-making and prioritisation process, each of the opportunities identified in Figure ii will be supported by detailed information to guide decision making, including information on the potential risks, outcomes and potential contingencies which relate to each opportunity.

ACCC Price Inquiry

Early Years Strategy

Interim report: by 30 June

Final report: by 31 Dec

Productivity Commission Inquiry

Final report: by 30 June

Strategic opportunities:**1 Coordination and clarity on current market interventions**

These opportunities focus on CCS markets

Policy opportunities:**1.1 Create an investment framework to operationalise interventions in ECEC markets**
Implement the Strategy's market intervention approach through an investment framework that:

- uses market failure (and/or thin markets) signalling and identified preconditions for non-market interventions
- assigns clear roles and responsibilities with respect to market and system stewardship.

1.2 Establish a framework for the transparency of market information

Establish the framework required to disseminate consistent, robust and timely information to other governments and actors, to inform policy decisions and market interventions. This may cover:

- Clear custodianship over existing collections
- Data linkages and information sharing across government
- Proactive release agreements

1.3 Respond to current care-type issues

CCS market shaping, to support the effectiveness of the care type system to meet family need:

- Supporting centre-based day care (CBDC) provision in thin markets,
- Reinvalidate the Family Day Care (FDC) sector, particularly where access to ECEC is limited
- Strengthen access to ECEC outside of Preschool hours
- Consider opportunities to maximise the accessibility of in home care (IHC)^a for those families that access this care type.

2 A comprehensive evidence base to inform market shaping**2.1 Improve the ability to measure market dynamics**

Improve visibility of the CCS provider landscape by mandating the collection of a broader set of provider-specific information to identify, monitor and respond to emerging risks in provider behaviour and market health.

2.2 Design and undertake a cost collection exercise

Develop an evidence base around the cost of service delivery across locations, care types and provider types, to support a range of policy applications.

2.3 Monitor child and family need in the CCS market

Increase mandatory data collection required as a condition of CCS funding to capture information on children's demographic characteristics and need (e.g. disadvantage, migrant or CALD status, disability) and to identify the opportunities to meet this need through wraparound service provision, new care types or more culturally suitable service delivery.

2.4 Build a supply and demand model for the CCS market

As a market steward, lead the development of a shared supply and demand model for the CCS market to improve visibility of market dynamics for all jurisdictions and to provide a consistent, timely and relevant input into policy and funding decisions throughout the ECEC system.

3 A view on the effectiveness of policy settings**3.1 Review the CCS**

Assess performance against the system objectives to determine if existing CCS settings lead to efficient, effective and equitable achievement of the system outcomes. The review might consider whether additional care types should be made eligible for the CCS, and how information about children and families' needs are used to inform the CCS eligibility criteria and funding settings.

3.2 Adopt new nomenclature for the CCSLead the sector to move away from the historical nomenclature of 'child care', to reiterate the educational outcomes supported through ECEC. This could include renaming the *Child Care Subsidy* as part of a suite of changes following a CCS review.**3.3 Review supports for children with additional needs across the sector**

Review current inclusion supports in terms of sufficiency, accessibility and quality. Consider potential alternatives fund and deliver services to higher-needs children and clarify the scope of the CCS relative to other supports.

3.4 Clarify the department's role in supporting the CCS workforce

Consider options for the department, as a market steward, to take a greater level of responsibility for interventions to manage workforce supply challenges in the CCS market, in collaboration with ACECQA.

4 A set of reforms to funding model design

These opportunities have more connections to the broader ECEC system

4.1 Redesign the CCCF

Clarify the purpose of the CCCF, and reflect this in the funding model design through:

- Clear streams (e.g. financial viability, inclusion, capital, workforce retention, and Indigenous block grants)
- Clear scope (e.g. infrastructure), boundaries relative to Inclusion Support Program funding (support to include children with additional needs)
- sufficiency (number, volume of grants)
- duration (continuity and perpetuity and a clearer set of objectives with respect to sustainability fundings).

4.2 Adjust CCS settings to support integrated services and place-based delivery models

Consider options to adjust the CCS settings to fund public service providers to design and deliver services which support a breadth of family needs at once - including health, housing, education, and disability - rather than in isolation; and which respond to local context.

Key - Market objectives:

- Accessibility
- Affordability

Quality

Connectedness

Sustainability

5 An evolution in the scope and purpose of the CCS**5.1 Research options to adopt a more holistic approach to defining, measuring and funding quality**

Consider adopting a new definition of quality and its dimensions - which range from child safety and compliance to cultural suitability and educational outcomes levers to link the CCS eligibility criteria. This could include:

- Continuous quality improvement as measured through the NQS
- Supporting the capacity of the NQS rating system by resuming funding to State Regulatory Authorities
- An outcomes-based performance framework, which is incorporated into the expectations of receipt of and provision under Family Assistance Law

5.2 Develop an approach to supply-side funding

As the CCS increases and States introduce supply-side funding, contemplate a system where the Commonwealth directly funds places within early learning services.

*Work to consider these options could be undertaken prior to 2025, although implementation would ideally follow the findings of the Productivity Commission Inquiry

^aIn home care (IHC) is distinct from other care types and programs and is an unregulated care type (except in TAS and SA). IHC is delivered in the family home and is available anywhere in Australia including remote and very remote locations. There is no requirement to be licensed by states or territories (except in TAS and SA). IHC is only available as a last resort for families when no other ECEC options are available or appropriate.

1. Coordination and clarity on current market interventions



1 Coordination and clarity on current market interventions

2 A comprehensive evidence base to inform market shaping

3 A view on the effectiveness of policy settings

4 A set of reforms to funding model design

5 An evolution in the scope and purpose of the CCS

Opportunity 1.1 | Create an investment framework to operationalise interventions in ECEC markets

Overview

Creating an investment framework to operationalise interventions in ECEC markets, identified in the Strategy, would provide the department with a consistent lens to the appropriateness and sufficiency of responses to market failure. The implementation of this framework would seek to:

- use thin/failing **market signalling** and identified preconditions as triggers for proportionate interventions
- leverage identified **roles and responsibilities** within the department which support its role as a market steward
- use the identified **conditions or circumstances** which warrant intervention (for instance, a consistent framework for intervening to support provider viability)
- clarify the roles of other stewards, including **jurisdictional governments**, over the conditions in the market, and in tailoring interventions to the local context
- outline the **nature of permissible interventions** (capital, operational, regulatory) and the mechanisms used to approach the interventions (competitive tender, special circumstances, thresholds).
- establish **expectations on outcomes** associated with interventions, including suitable evaluation criteria., and
- continue to **identify** market failure, within the context of relevant ECEC system goals such as affordability, accessibility, quality, especially in the context of supporting community led and controlled services for First Nations communities and other priority groups.

Benefits

Developing an investment framework would enable:

- an agreed definition and approach to **identifying and intervening in thin markets**
- improved **management of the ECEC market**, including a consistent application of management principles in line with the system objectives
- greater understanding for families on the **roles and responsibilities of each agency**, reducing friction in accessing services and funding
- a **clear stewardship role for the department** in supporting thin markets, improving the transparency of funding and providing opportunities for greater coordination with state and territory governments, and
- increased **quality of provision** in areas where progress has lagged.

Related opportunities and policy actions

Within this Strategy

Opportunity 2.4 – *build a supply and demand model for the CCS market* – will enable the department to act as a steward over thin markets. In turn, the department will be able to consider opportunities for co-stewardship with state and territory governments around non-market interventions in thin markets, assisting them in building trust locally, understanding regional nuances and providing more targeted support to communities (i.e., place-based solutions).

This framework would also be enabled by action on other opportunities which relate to data collection and collaborative market monitoring, including:

- 2.2 Design and undertake a cost collection exercise
- 2.1 Improve the ability to measure market dynamics
- 2.3 Monitor child and family need in the CCS market

Existing State and Territory interventions

Other jurisdictions and government agencies may already have developed frameworks to guide interventions in thin markets across the ECEC sector.

The Market Intervention Framework proposed in this opportunity should not seek to replace the efforts of other jurisdictions, but should rather seek role clarity for the department, support consistency in the intent and magnitude of Commonwealth interventions, and seek coherence in the interventions across different settings.

Other departmental initiatives

- The department is currently developing a market monitoring framework that will likely include relevant information in helping to identify specific market failures or thin markets.

Opportunity 1.1 | Create an investment framework to operationalise interventions in ECEC markets

Rationale

In keeping with a stewardship approach, there is an opportunity for the department to take on a more coherent role in reducing the instance of market failure in the ECEC sector. Consultations revealed a lack of clarity among government actors with respect to the threshold of 'market failure' in the CCS market, which agencies are responsible for those interventions, and the mechanisms which can be used to intervene. The department's leadership in developing a framework to guide these interventions can support more consistency and collaboration across the market to support provision in instances of market failure.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:

Accessibility

Affordability

Sustainability

By ensuring that families are:

1. Empowered

3. Supported

By supporting provision that is:

4. Operationally viable

5. Financially viable

- An effective investment framework will enable interventions that ensure families aren't faced with thin markets and can access the specific type of care they require (Objective 3: Supported families).
- Preventing thin markets means ensuring that providers are able to deliver care in a financially sustainable manner (Opportunity 5: Financially viable providers).
- An effective investment framework will enable workforce interventions in areas at risk of becoming thin markets (e.g., regional and remote areas) due to high staff turnover (Opportunity 4: Operationally viable providers).
- Preventing thin markets through ensuring providers can sustainably deliver ECEC reduces the need for providers to raise prices, lowering costs for families (Opportunity 1: Empowered families)

Consultation findings

The need for stewardship

- There is a gap in stewardship for access (provision and participation) for vulnerable cohorts and thin markets. Provision of services for vulnerable cohorts or in thin markets is usually achieved through larger players in the NFP sector (which is shrinking).
- Organisations agreed that a steward is needed to commission or incentivise provision in thin markets and to monitor provider viability.
- There is a lack of clarity across governments about the conditions in which interventions are needed manage to market failures, and which actors are responsible for these interventions.
- Providers felt a stewardship and co-ordination role could be played by the department to reduce silos across the system.

Presence of thin markets

- Providers across Australia noted challenges with thin markets. Examples included small communities and remote areas, where services are often not profitable and are likely to be community-based or not-for-profits. Providers noted that the demand for ECEC services fluctuates in small communities due to changes in the number of children, potentially influencing the financial viability of a service.
- Current funding arrangements (CCS) were critiqued for limited funding to some types of ECEC services (e.g. IHC⁴), and for inadequate financial support to regional or remote communities.
- In some thin markets, there are multiple layers of disadvantage, or higher-needs among children and families. For instance, providers noted a higher rate of ill-health and/or disability in some regional and remote communities, which presents additional challenges in care due to required resources and safety.
- Delivery models to support thin markets were discussed, including place-based interventions and the proposal for mobile ECEC services to the need across multiple regional or remote communities. Consultees reiterates that any service model should be co-designed with the community, to ensure it reflects the communities needs and can be financially viable.

Lessons from the NDIS

- DSS has worked with the NDIA to develop a Thin Market Framework, and the NDIA have since implemented a number of thin market strategies that use innovative approaches to funding. These approaches include coordinated funding proposals, aspects of direct commissioning and pooling of demand. While these remain in trial, they may present a point of reference for the department.

1 Coordination and clarity on current market interventions

2 A comprehensive evidence base to inform market shaping

3 A view on the effectiveness of policy settings

4 A set of reforms to funding model design

5 An evolution in the scope and purpose of the CCS

Opportunity 1.1 | Create an investment framework to operationalise interventions in ECEC markets

Levers



Policy and coordination: Establishing an investment framework represents the development of a policy to guide the department and other actors.



Integration: The development of an investment framework will provide clarity over how different actors (e.g., the department, state governments and ACECQA) can collaborate to limit the appearance of thin markets.

Key stakeholders

- **The department:** would oversee the operationalising of an investment framework as a steward.
- **Families:** in thin markets will be a key stakeholder in the development of the framework and will be heavily impacted by any investments. Understanding the needs and local contexts of these families will be essential in developing a successful framework.
- **Providers:** are another key stakeholder in the operationalising of an investment framework, as their incentives to deliver services determine whether a thin market exists. Providers, particularly those that deliver in thinner markets (e.g., regional areas, First Nations communities and specialised disability care), will be heavily impacted by any future investments.
- **State governments:** will develop an understanding of the department's role in intervening in thin markets as well as when, and in which markets, they should engage. Currently, state governments are the main actors that oversee and manage thin markets.
- **Other government agencies:** will develop an understanding of their role and the department's role in intervening in thin markets.

Next steps

As a first step, the department should:

- Determine the **scope of the proposed Market Intervention Framework** including the **objectives** (e.g. access, affordability, quality) which the department is seeking to support through these interventions.
- **Consult** with Australian government agencies and, where appropriate, with other jurisdictions, to pursue a model which is coherent (achieving the same outcomes) at a national level, while cognisant of different market settings.
- Determine a policy position and develop a **proposal** seeking in-principle support for a collective approach across jurisdictions to consider the feasibility of implementation.

Implementation considerations

Extent of change 	<p>The department taking a clear stewardship approach over thin markets represents a major departure from current practice. It would have major implications for other actors (e.g., ACECQA and state governments), as well as for the department's workload and level of responsibility over monitoring and intervening in the CCS market.</p>
Risk 	<p>A lack of collaboration between the department and other actors (particularly state governments and agencies with granular place-based information) poses a risk and could lead to poorly directed market intervention. This risk could be mitigated through ensuring clear engagement and communication with all relevant state governments and agencies.</p>
Potential cost 	<p>The cost of implementation depends on the scope of the framework and the role and level of responsibility the department takes to funding these interventions, relative to other actors.</p>
Specialist capabilities 	<ul style="list-style-type: none"> • Cross-agency consultation, negotiation and coordination • Knowledge of the different thin market contexts across Australian jurisdictions and the current approaches of State and Territory Governments.
Policy contingencies 	<p>Other jurisdictions and government agencies may already have developed frameworks to guide interventions in thin markets across the ECEC sector.</p> <p>The Market Intervention Framework proposed in this opportunity should not seek to replace the efforts of other jurisdictions, but should rather seek role clarity for the department and inform the areas of focus at a national level.</p>

Opportunity 1.2 | Establish a framework for the transparency of ECEC sector information

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Overview

Establish a framework to disseminate consistent, robust and timely information across governments, to providers and with other ECEC system actors to inform coherent policy decisions, market interventions and improve decision-making.

The purpose of the framework would be to:

- develop coordinated and consistent approaches to data collection, dissemination and use within government (and across governments), to ensure the best information is available and used to inform policy decisions, programs or other interventions, and
- provide ECEC system actors with clarity regarding the information available to service providers to ensure the system is responsive to family needs, efficient and effective, and drives innovation.

The framework, at a minimum, would identify:

- the **roles and responsibilities** of system actors as data stewards - curating and managing relevant data
- the data that is **currently collected** by governments, providers and other ECEC system actors
- opportunities to **link datasets across government agencies** to improve visibility over aspects of the market such as provider viability (e.g. via the ATO) and early childhood development outcomes (e.g. via the Department of Social Services).
- the **scope** of the data that will be collected in the future and by which system actors (see 'related opportunities')
- the levels of **access to data** afforded to each system actor, including the process for gaining access (including a service guarantee on the provision of data)
- the **release of data** including identifying those data products that are proactively released to other agencies (or within the public domain), compared to those which can be requested by eligible system actors. This would include a schedule of proactive data release or commitments by each data steward, and
- the **privacy and consistency controls**, including guidelines on the appropriate use of specific data and instructions on the further publication of data

Benefits

A strong framework for disseminating data enables:

- **proactive data release**, to inform formative (rather than only summative insights) on policy decisions and to inform timely market shaping
- **efficient market interventions** which are based on the most coherent and most recent available market information.
- **role clarity** on data collection and release decisions by government agencies, including clarity on which data is available proactively and upon request
- **awareness of system connectivity** for each government agency, where transparency enables policymakers to information beyond their own system

Related opportunities

Within this Strategy

This framework sets a foundation for action on other opportunities which relate to data collection and collaborative market monitoring, including:

2.2 Design and undertake a cost collection exercise

2.1 Improve the ability to measure market dynamics

2.3 Monitor child and family need in the CCS market

Outside of this Strategy

The key project related to establishing a framework for transparency is the department's Market Monitoring Framework, which is currently being developed. The Market Monitoring Framework will create a succinct dashboard from which data can be collected and analysed, as opposed to an overall strategy for disseminating information (excluding IHC, given limited and poor quality data available^).

This opportunity could encompass or support parallel projects including:

- The department's website and external communications, as well as ACECQA's *Starting Blocks* website
- The department's Future Vision work, and
- The Federal Government's election commitment to transparency measures, including mandatory profit reporting, the provision of real-time fee data and quality ratings to families and a ban on non-educational enrolment inducements.

The department also has plans to improve its data infrastructure. The proposed data infrastructure will improve how the department accesses child care data held within Services Australia's data holdings, support timely monitoring and reporting on the impact of the child care changes, and take advantage of modern tools and technology for data extraction, data storage, reporting, modelling, and for undertaking advanced analytics.

Opportunity 1.2 | Establish a framework for the transparency of ECEC sector information

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Rationale

- The data collected by agencies (from sources within and beyond the ECEC system) is currently used to understand – to some extent – the performance of the system against accessibility, affordability and quality. Several agencies including the department, ACECQA, the Australian Tax Office (ATO), the Australian Bureau of Statistics (ABS) and Services Australia hold disparate datasets that are not integrated and used in isolation.
- There is a need for more active collaboration across government to enhance system integration and sophistication of market monitoring and interventions. This includes supporting data linkages with the CCMS jurisdictions, ATO, and Services Australia to ensure that data collected can inform user preferences, provider behaviour and system need (within the boundaries of the Australian Privacy Principles and Family Assistance Law).
- There are gaps and inconsistencies within existing datasets that is exacerbated by significant lags in the collection and release of the data (externally, or within government). This limits the capacity of the system to monitor the market for risks and to take timely action to shape the market in line with policy objectives.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:

Accessibility Affordability Connectedness

By ensuring that families are:

2. Informed 3. Supported

By supporting provision that is:

5. Financially viable 6. Competitive 7. Accountable

- More transparency with respect to system design and performance will encourage greater levels of competition across factors such as price, quality and product innovation (Precondition 6: Competitive provision).
- Transparency regarding competition will ensure providers have the information required to meet local need and that market stewards (and co-stewards) can identify and intervene in instances where viable provision is at risk (Precondition 5: Financially viable provision) (n nuanced for IHC)
- Greater transparency will enable the collection of data required to identify fraudulent or unacceptable provider behaviour, improving the accountability of the ECEC sector (Precondition 7: Accountable providers).
- Competition on price, quality and product innovation which results from a more transparent market will encourage the market to offer services which are tailored to the needs of local families. (Precondition 3: Supported families)
- Transparent information about the market ensures that families are informed about their options (Precondition 2: informed families)

Key consultation findings

Timeliness

- The delayed or limited release of datasets limits the capacity of the department (and other agencies) to identify, monitor and assess the impacts of specific policies, practice or external factors (such as parental workforce patterns, need or external shocks).
 - In some instances, specific datasets are rendered redundant due to delay of insufficient cadence (such as the outputs of the Assessment and Rating processes undertaken by regulatory authorities under the National Law).

Completeness

- The existing ECEC datasets are inconsistent or incomplete rendering them analytically unreliable or redundant to ECEC system actors:
 - There are identifiable gaps in existing datasets regarding access and participation to ECEC for certain cohorts. Specifically, this includes culturally and linguistically diverse communities, children with disability and children from Indigenous families.
 - There are new collections currently being proposed, including those under the Preschool Reform Agreement, that are duplicative or disconnected from existing collections. This provides a partial view of the ECEC system.
 - The size, complexity, and structure of the datasets and (2) the scope of data collection and the auspices under which the data is collected (for example, Family Assistance Law) are barriers to the wider distribution and use of critical datasets.
 - Datasets are linked directly to obligations under funding models rather than outcomes – for example, hours of subsidy funded rather than the number of hours in care distorting utilisation across the system and masking provider and family

Transparency

- The ECEC system is seeking greater transparency of and access to data across the system to:
 - improve the historical evaluation of system performance including understanding the impact of policy, program and market interventions.
 - greater visibility of ECEC market information to identify emerging issues and improve the design, implementation and monitoring of policy, including demand and supply-side interventions (and the management of emergency responses).

Opportunity 1.2 | Establish a framework for the transparency of ECEC sector information

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Levers



Information provision: By creating a framework for information dissemination, the department is enabling the provision of information between families, providers and the Government.



Policy and coordination: The department may need to implement and coordinate policy reform to support timely and consistent data release.

Key stakeholders

- **The department:** will oversee the creation of a framework, determining its terms of reference in consultation with other actors
- **Providers:** may have information gathered from them or have increased access to information about families needs and preferences.
- **Other government agencies:** may engage in information sharing and have their roles and responsibilities re-evaluated.

Next steps

The success of this initiative (the full realisation of the benefits) will be contingent on a collective commitment to the Framework by all relevant ECEC system actors. However, if this Framework was implemented in isolation by the department, it would remain relevant as it directly supports the fulfilment of the department's roles as a data custodian and market steward. As a first step, the department should:

- Determine the scope of the proposed Framework including the **objectives** of implementing a framework regarding data transparency, the **ECEC actors** that will be a party of the Framework, and the **datasets** within scope of the Framework.
- A **proposal** seeking in-principle support for a collective approach across jurisdictions should be developed and a **feasibility study** conducted to consider implementation, technology and financial implications.

Implementation considerations

Extent of change <i>low</i> ————— <i>high</i>	Greater market transparency within government would reflect a departure from the current approach, which would be expected to support improved decision making across ECEC actors.
Risk <i>low</i> ————— <i>high</i>	They key risks to an effective framework are a lack of buy-in from other agencies and a lack of clarity in the framework over roles and responsibilities. Risks can be mitigated through thorough consultation, and clear communication about the efficiency benefits of such an agreement.
Potential cost <i>low</i> ————— <i>high</i>	Additional costs may be incurred relating to supporting the requests for data that is not released proactively, and in some instances, for the technology required to enable the data-sharing. One option to reduce cost to the department through a user-pays model for bespoke requests for public data release or specific data requests on more confidential information.
Specialist capabilities <i>low</i> ————— <i>high</i>	<ul style="list-style-type: none"> • Consultation and ongoing communication with participating agencies • Data management, including managing data release agreements • Managing compliance against the framework
Policy contingencies <i>low</i> ————— <i>high</i>	The PC Inquiry, ACCC Price Inquiry and development of the Early Years Strategy may influence the areas of focus for data, data sharing and collaboration of the system. This Framework would provide a mechanism to enable some initiatives into the future.

Opportunity 1.3 | Respond to current care-type issues

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Overview

This opportunity focuses on supporting the market to navigate current challenges with accessibility and flexibility using the levers that currently sit within the department's remit as a steward of the CCS and its care types. These opportunities represent marginal changes (relative to larger opportunities, such as reviewing the CCS).

These opportunities include

- Supporting **centre-based day care (CBDC) provision in thin markets**, by considering implementing a dedicated infrastructure grant program. This could be an expansion of existing infrastructure grants, or alternatively, a national agreement to enable jurisdictions to co-fund and co-deliver local solutions. Funding might present an interim solution to thin markets ahead of a broader review and/or redesign of the CCCF, and would require ongoing monitoring and evaluation in order to not drive unintended consequences (e.g., crowding out of private or not-for-profit investment).
- **Reinvigorate the family day care (FDC) sector** by considering changes to the funding and regulatory environment to strengthen access to and perceptions of this care type for families. Given fewer complexities of scale, minimal infrastructure costs and more flexible provision options, there is emerging evidence to support a case to make this a more mainstream care type, especially in regional, rural and remote Australia.
- **Strengthen access to out-of-Preschool-hours care** by proactively supporting jurisdictions to create new care types based on reforming historical or legacy provision (e.g. to fund 'top and tail' CCS funding around preschool provision).
- Consider opportunities to **maximise the accessibility of in home care (IHC)** for those families that access this care type. This care type is targeted specifically to families with unique needs⁴ (e.g., working non-standard and variable hours or geographically isolated from other approved services). Initial indications from the consultation series indicate that there is a greater need relative to provision levels of this care type. Reflecting a complex set of eligibility criteria and varying levels of need, there is an opportunity for the department to ensure that the funding model is efficiently structured to maximise participation (e.g. intermediary bodies that broker provision.)

Benefits

This suite of potential adjustments to existing CCS funding and regulatory settings seeks to:

- ensure the suite of care type options within the CCS are best calibrated to support **navigability and flexibility for families**
- strengthen **access to ECEC for families with non-standard needs**, including those that require care outside of a standard CBDC context
- communicate the **role of the department as a market steward** over the CCS to the sector
- improve ability to **adapt levers in the CCS response to align with changes in the ECEC ecosystem**, such as changing policy settings at a jurisdictional level, or changing priorities at a national level.

Related opportunities and policy actions

Within this Strategy

This opportunity precedes larger scale reforms, and is focused on immediate solutions to better integrate care types. As such, the opportunity is less contingent on other actions within this strategy. However, these actions would be enabled by preceding opportunities, including:

- Create an investment framework to operationalise interventions in ECEC markets and assign roles and responsibilities with respect to market and system stewardship (Opportunity 1.1).
- This would clarify the relative roles of the Australian Government and States and Territories in investing, ensuring coherence in CCS care type offerings.
- A framework for the transparency of ECEC sector information (Opportunity 1.2). This would inform an evidence base to identify thin markets and potential interventions.

Existing State and Territory interventions

Other jurisdictions and government agencies may already have developed frameworks to guide interventions in thin markets across the ECEC sector, including to 'top and tail' CCS delivery. This opportunity would involve developing an approach for the department to seek coherence across different settings.

Opportunity 1.3 | Respond to current care-type issues

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Rationale

There is an opportunity for the department to, through a stewardship lens, shape the CCS market to ensure that the current care type policies and subsidy settings more effective.

This includes improving interactions between care types for families, to ensure the system is user-friendly, easy to navigate, and does not include any perverse incentives to participation for families that need more flexible care type offerings.

Key consultation findings

Centre-based day care and infrastructure

- Australian Government Department of Education consultees noted that they did not perceive it to be their role to intervene by investing money in markets to build child care centres. However, there may be a role for the department to support where there are barriers to entry as a result of infrastructure or workforce.
- Infrastructure investments which stem from coordination between the Australian Government Department of Education and jurisdictional governments may better enable an integrated approach to place-based delivery.
- There have been national debates on how CCS fits with state and territory historical models. Because states and territories already have infrastructure in use, the ACT Department noted that their approach has been to look at CCS in terms of how they can “harness” the best of what it offers to fit with the current situation. However, this approach was suggested to cause a lack of continuity in how child care is run across different jurisdictions.

Family day care regulations

- Providers noted misconceptions in the community around the different types of ECEC services, specifically FDC. Providers in the FDC sector discussed the public perception that FDCs do not provide the same level of care as centre based care, despite both being regulated under the NQF.
- ECEC regulation is an obstacle to flexible delivery models in regional and remote communities. Specifically regarding FDC, consultees discussed that there is a reluctance from families to take on the legal responsibility of service provision due to the high regulatory requirements.
- Providers saw FDC as one option to support families in thin markets but recognised that it is not appropriate for all families and will not solve the undersupply of ECEC in remote areas.
- The number of FDC providers is falling, with consultees attributing market exits due to providers being reluctant to, among other reasons, use their family homes as a business.

Interactions between CCS and Preschool services

The role of States and Territories in the Preschool market varies, and some have trialled solutions to align preschool and CCS service offerings:

- The Australian Capital Territory Department have trialled “wrap around” services for preschools, to provide outside-of-preschool-hours care to families. The greatest challenge identified with these trials has been gaining support from unions, who have limited support for the model as it prevents preschool teachers from accessing the facilities to prepare for the next day of learning.
- The South Australian Department is the major provider of preschool in the state, and the conditions and pay are significantly higher than what is offered in the centre-based day care sector. This itself causes attraction challenges.
- The Queensland Department Consultees have intervened in the market where there has been a clear failure, for example where no provider is willing to enter a high demand location. There was consideration on whether the Queensland Department should intervene in the centre based day care market, but given their remit of ‘education’, consultees noted a conscious decision to focus their attention on preschool and kindergarten services to support children with preparation for schooling.

In Home Care

- Peak bodies in the IHC sector discussed the need for flexibility to transition across different forms of child care, including CBDC, FDC, and IHC.
- AHCA noted that IHC only represents a small proportion of the sector, however, it services vulnerable families.[^] They noted that the CCS is appropriate for ‘typical’ parents, however, it does not provide support for those working non-standard hours.
- For some families, IHC offers an option for providing non-standard hours support. However, children enrolling in preschool reduces or prevents access to other types of services (particularly IHC).
- Exacerbating these challenges, the CCS activity tests can reduce affordability, and therefore access, specifically for vulnerable cohorts in regional and remote areas.
- Consultees disagreed on whether there should be a new IHC program or amendments to the current IHC program. However, they agreed that the existing complex requirements could be updated to support more flexible care types and enable greater care provision.
- Increased provision of IHC brings an increase in risk exposure for the department as IHC is unregulated in Tasmania and South Australia.

Opportunity 1.3 | Respond to current care-type issues

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Key consultation findings (continued)

In Home care (continued)

- Delivering IHC can be challenging due to the high regulatory requirements that exist. For example, Guidelines restrict an individual from being able to care for different families' children at the same time, even if they all live on the same property.
- IHC faces some unique challenges in workforce recruitment and retention, due to employees working by themselves with little access to external support.
- Many parents desire greater connectedness between IHC and other services, particularly disability supports and allied health.

Supporting the NQS ratings system

- Some provider organisations noted inconsistencies across jurisdictions regarding NQS and quality ratings assessment processes, including different ratings for one provider operating with the same model in different jurisdictions.
- Providers described a conflict of interest, where government is acting as a funder, regulator, and assessor of the market. They discussed that there is an incentive for the assessor to issue a certain number of 'Exceeding', and 'Meeting NQS' ratings, and fewer 'Working towards' ratings, for the public to perceive the state as having high quality services. They further emphasised the need for independent quality assessors.
- The intention of the quality rating system may have been lost since the 2018 NQS. The sector is primarily achieving the "meeting" rating, because many providers do not understand what "exceeding" looks like in practice.
- The role of States and Territories in quality assurance varies. The NT Department of Education has developed a role in the market to support with quality, by:
 - providing and supporting early childhood programs, with many being funded by the government as part of schools, and
 - transferring the regulatory team into the NT Department of Education to be more heavily involved in the NQF related work.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:

Accessibility

Quality

Connectedness

By ensuring that families are:

1. Empowered

2. Informed

3. Supported

By supporting provision that is:

6. Competitive





- Responding to current care-type issues would enable a range of system objectives.
 - Reforming current care-types to improve the connections between them would support **access** for families, especially for those depend on multiple types of care to enable workforce participation.
 - Reforms to support thin markets are also about **connectedness** to other services, and connectedness between care type
 - Supporting the NQS rating system would improve the **quality** of ECEC delivery.
- This opportunity is primarily focused on improving the navigability and coherence of the care type model for families. Enabling a consistency in access to ECEC would ensure that families:
 - have sufficient buying power to access ECEC (Objective 1: **Empowered** families)
 - are informed about the care options available to them (Objective 2: **Informed** families), and
 - are able to choose care that suits their needs and preferences (Objective 3: **Supported** families)
- Strengthening care types would also ensure that providers compete on quality and flexibility, especially in markets served by smaller care types like FDC and IHC (Objective 6: **Competitive** providers).

Opportunity 1.3 | Respond to current care-type issues

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Levers

Depending on the specific care type issue, a range of levers might be utilised, including:

-  **Funding:** Responding to current care-types may require adjusting eligibility criteria for funding to ensure that there are no perverse incentives to use multiple care types.
-  **Integration:** Improving the navigability and coherence of the care type model may require integrating processes across agencies (e.g., the role of State Governments in NQA ratings and assessment).
-  **Regulation:** Regulatory changes may be required to reform the CCS, particularly to maximise the accessibility of IHC and reinvigorate FDC.
-  **Information provision:** To effectively respond to current care-type issues, the department will need to engage in information provision to families about the care types and their purpose.

Key stakeholders






- **The department:** will use the levers within its remit as a steward of the CCS and its care types
- **Families:** will be a key stakeholder of this opportunity and should be central to consultation. They may be heavily impacted by any changes to current care-types.
- **Providers:** will have information collected from them and may also be heavily impacted by any changes to current care-types.
- **Other government agencies:** may be consulted by the department throughout the reforms and will develop an understanding of the department's role as a steward in the sector.

Next steps

For each of the specific actions identified within this opportunity, the department will need to undertake a process of consultation and planning to ensure that reforms are the most effective to tackle specific challenges. This process might include:

- Undertaking more detailed consultations with providers and families about the challenge identified – such as consulting with providers within the IHC and FDC sectors to understand specific reform options.
- Identifying options to intervene, and assessing their regulatory, funding and legal implications, including the potential need to alter Family Assistance Law
- The creation of a proposal for department action, for approval by the Minister as required.

Implementation considerations

Extent of change 	Responding to current care-type issues is within the remit of the department. However, actively shaping the market does represent a more interventionist approach than the department has typically adopted.
Risk 	The key risk associated with this opportunity is that a lack of complete information about the specific policy issues leads to ineffective interventions. Actions such as changes to regulations in IHC will require a strong risk management strategy and clear accountability frameworks to minimise unintended consequences associated with these reforms.
Potential cost 	The specific actions included in this opportunity do not compromise major or systemic changes. As a result, the overall cost of responding to current care-types is lower compared to other opportunities. Importantly, costs would vary by the specific intervention (e.g., supporting the NQS vs maximising the accessibility of IHC).
Specialist capabilities 	<ul style="list-style-type: none"> • Understanding of care types and their history • Consultation and ongoing communication with families
Policy contingencies 	While the PC Inquiry and ACCC Price Inquiry may provide additional evidence and recommendations around care types to inform future interventions, this opportunity is focused on actions that can be taken more immediately. As such, it aims to increase the effectiveness of the CCS prior to future interventions.

2. A comprehensive evidence base to inform market shaping



Opportunity 2.1 | Improve the ability to measure market dynamics

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Overview

Improve visibility of the CCS provider landscape by mandating the collection of a broader set of provider-specific information to identify, monitor and respond to emerging risks in provider behaviour and the health of the CCS market.

The purpose of the collection would be to enable greater levels of proactive market monitoring to:

- understand the relationship between costs of provision, care type, regionality and ownership
- increase visibility of workforce dynamics including training and professional development
- assess provider viability, utilisation and breakeven points
- ensure returns to providers (profit or surpluses) are at appropriate and sustainable levels
- improve the transparency of pricing information to the market
- build a deeper understanding of market activity – including acquisitions, consolidations and new investment to monitor the overall health of the competitive landscape.

The collection could include data which supports the departments' ability to capture:

- the **components of service delivery** that are provided to families and children by CCS care types, and variation in this, across types of providers (e.g. location, ownerships structure, quality)
- the **costs of delivery** across the ECEC landscape for different components of services
- ownership and levels of **market concentration** (within care types and across locations)
- **market entry and exit** (including trends in consolidation and acquisition)
- **profitability** of providers
- out-of-pocket and total **costs to families**
- characteristics of the **provider workforce** (e.g. qualification, tenure, wages)
- expenditure on **wages** (for example, above Award)
- expenditure on formal **training** and professional development

Benefits

Visibility of the ECEC provider landscape enables:

- increased understanding of **market dynamics and competition** in the ECEC sector, including an understanding of rates of market entry and exit
- **efficient market interventions** which are based on the most coherent and most recent available market information
- **informed discussion** around sector concerns, including the margins achieved by for-profit providers and causes workforce shortages
- effective **estimation of policy impacts**, particularly how supply will respond to changes in ECEC policy.

Related opportunities

Within this Strategy

This opportunity would be supported by first taking action to:

1.2 Establish a framework for the transparency of market information

Acting on this opportunity could also support other data collection initiatives:

2.2 Design and undertake a cost collection exercise

3.4 Clarify the department's role in supporting the CCS workforce

Opportunities to reform funding model design (theme 4).

Outside this Strategy

The key project related to collecting provider specific information is the department's Market Monitoring Framework, which is currently being developed. The Market Monitoring Framework will create a succinct dashboard from which data can be collected and analysed. The collection of a broader set of provider-specific information may add to or be encompassed by this dashboard.

Opportunity 2.1 could include or support parallel projects including:

- The department's Financial Viability Framework, and
- The Federal Government's election commitment to transparency measures, including mandatory profit reporting, the provision of real-time fee data and quality ratings to families and a ban on non-educational enrolment inducements.

Opportunity 2.1 | Improve the ability to measure market dynamics

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Rationale

- The department currently has limited visibility of the CCS provider market, including with respect to provider ownership and service characteristics, provider performance (including margins, profits/surpluses, and quality) and market dynamics (including levels of supply and unmet demand, competition, and trends in growth and acquisition).
- Without visibility over this information, it is challenging to proactively manage or shape the market, and to respond to emerging risks, such as rapid inorganic growth through acquisitions. Improvements to data collection on these dimensions (which may require changes to the Family Assistance Law) will support stronger visibility over the supply side of the market.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve

Accessibility	Affordability	Quality	Sustainability
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By ensuring that families are:

1. Empowered	3. Supported
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By supporting provision that is:

5. Financially viable	6. Competitive	7. Accountable
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- Greater visibility over the provider landscape will support market shaping to facilitate competition across factors such as price, quality and product innovation (Precondition 6)
- A deeper understanding of market activity – including acquisitions, consolidations and new investments – can ensure that risks to provider viability are identified and managed with minimum disruption to the sector. (Precondition 5: Financially viable provision)
- The collection of information about provider costs and quality will support a more consistent measure of market interventions to improve access. (Precondition 3: Supported families)
- Greater transparency with respect to provider cost, quality and scope of delivery can inform interventions to strengthen the buying power and affordability of services for families in the ECEC market. (Precondition 2: Empowered families)
- Increasing visibility over the provider market would enable the department to effectively monitor and intervene against fraudulent provider behaviour. (Precondition 7: Accountable providers)

Key consultation findings

Consultations revealed that current data collections focus on information about service delivery (e.g., service fees, hours of funded care, quality ratings), but typically do not extend to information about the characteristics of providers and their competitiveness in the market. This includes lacking data about:

Competition

- There is a lack of visibility over the level of competition in the ECEC sector or rates of market entry and exit. This includes uncertainties over which features of care providers are competing on (e.g., price, quality, flexibility or volume).
- There is limited clarity regarding the specific services included in each provider service fee, and variation in the scope of service delivery makes like-for-like comparisons on cost challenging.
- A lack of visibility over market dynamics hinders agencies' ability to intervene in the market and promote competition.

Ownership and acquisition

- Providers' ownership structures and market concentration was identified as a notable data shortage, which limits the capacity of government agencies to assess the health of competition in the market, especially at a local level. Changes in ownership and inorganic growth (through acquisition) are not consistently or transparently reported.
- Identifying growth in new service provision currently relies heavily on ACECQA service approvals data – a measure which does not include visibility over the potential pipeline of market entrants. Understanding the supply pipeline was identified as a major challenge in areas of rapid population growth and/or housing development.
- While some adjacent provider financial information exists – such as that collected by the Australia Tax Office – and can provide partial information, an extension to the data collection is required to fill gaps.

Profits and surpluses

- Provider profit and surplus levels, and rates of margin were highlighted as a key gap in market transparency.
- There is little information available around the cost of delivery across different care types and locations or the financial position or expenditure levels of providers, which creates challenges in assessing the appropriate or 'efficient' levels of cost and surplus for providers and to assess affordability for families.
- The relationship between profit, quality and outcomes is assumed, although evidence suggests there is considerable ambiguity and complexity.

Opportunity 2.1 | Improve the ability to measure market dynamics

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Levers



• **Information provision:** By collecting information from providers, the department is enabling the provision of information between families, providers and the Government.



• **Policy and coordination:** The department may need to implement and coordinate reforms to *Family Assistance Law* to support the extended data collection process.

Key stakeholders

- **The department:** will oversee the collection of provider-specific information and play a key role in using this information to measure market dynamics.
- **Providers:** will have provider-specific information collected from them (e.g., components of service delivery, expenditure on wages and costs of delivery).
- **Other government agencies:** may be consulted by the department throughout the Review and will develop an understanding of the department's role as a steward in the sector.

Next steps

The success of this initiative (the full realisation of the benefits) will be contingent on a clear scope and purpose which is well-communicated to the provider market. As a first step, the department should develop a proposal which considers:

- The scope and purpose of the additional collection
- Legal implications, including the potential need to alter *Family Assistance Law*, and to comply with privacy requirements
- A staged approach to implementation over a series of initial data collection cycles

Implementation considerations

Extent of change 	Collecting provider cost information would reflect a departure from the current approach, and could signal a change in the relationship between providers and government.
Risk 	They key risks to an effective framework are a lack of buy-in or commitment from the provider market, and misperceptions of the department's intent. Risks can be mitigated through thorough consultation, and clear communication about the purpose, scope and benefits of this collection for the sector. Establishing provider reporting as a mandatory requirement to receive the CCS could mitigate risks of non-reporting.
Potential cost 	There may be substantive costs associated with conducting regular and thorough consultations with families. Additional costs may be incurred to maintain and utilise a more expansive data collection. Costs could be minimised by considering options to extend current data collections or to automate some processes. A stages approach to implementation can support the design of an operationally- and cost-efficient data collection process.
Specialist capabilities 	<ul style="list-style-type: none"> • Consultation and ongoing communication with the sector to establish and implement the collection effectively. • Data management, including managing data release agreements
Policy contingencies 	Implementing this opportunity in a way which mandates collection of data from providers is likely to require changes to the <i>Family Assistance Law</i> . The data collection may be a contingency to the effective implementation of other policies.

Opportunity 2.2 | Design and undertake a cost collection exercise

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Overview

Establish an evidence base regarding the cost of service provision across geographies, care types and provider types, to support a range of policy, program and market interventions.

The purpose of this collection is to understand:

- The underlying **cost structure** of delivery for:
 - Different components of delivery (i.e. what is included in the service fee)
 - Varying organisational structures (i.e., private and not-for-profit providers)
 - Differing care types and delivery settings
 - A given level of quality.
- The variation in cost structures across **regional, rural and remote** Australia
- The costs of **specialist interventions** associated with supporting different communities' care needs (including but not limited to children with disability and children, First Nations children and children from culturally and linguistically diverse backgrounds)
- **Provider viability**, utilisation, breakeven points and profitability (including the relationship between cost and market pricing and the variation across sub-markets)
- **Employment costs** (including training and development) and the relationship between wages, workforce shortages and service provision
- The **optimal calibration** between funding (provided by government), costing and prices.

Benefits

Establishing an evidence base regarding the cost-of-service delivery enables:

- increased understanding of the relationship between **funding and profit levels** across providers, care types and differing quality levels
- improved ability to **address additional costs** associated with supporting learner cohorts (e.g., children with disabilities) through loadings or programmatic funding
- **proactive market monitoring** to navigate economic change (e.g. to monitor costs in a high-inflation environment)
- the **calibration of existing settings** within the CCS to achieve a stronger return on investment for significant public investment
- informed interventions in **thin markets**, supported by an understanding of the suitability and sufficiency of funding programs
- effective estimation of the **impact of workforce investments** on delivery costs and the prices faced by families.

Related opportunities

Within this Strategy

This opportunity could inform the department's approach to:

- Reviewing the effectiveness of the CCS and Additional CCS (Opportunity 3.1) and the CCCF (Opportunity 4.1) with reference to the drivers of delivery costs in these different settings.
- Build a supply and demand model for the CCS market (Opportunity 2.4)

Other departmental initiatives

- Understanding costs of provision is strongly linked to the Federal Government's election commitment to greater transparency in ECEC, including mandatory profit reporting, the provision of real-time fee data and quality ratings to families and a ban on non-educational enrolment inducements.
- Data collected through the department's Financial Viability Framework may provide a basis for some components of the cost collection, and comparisons of relative cost in different contexts.

The ACCC Pricing Inquiry

The ACCC Pricing Inquiry Terms of Reference includes considering the

- costs incurred by providers in delivering ECEC services – including labour, land, administration, regulatory and consumable costs
- prices charged by providers from 2018 to present, with a focus on changes to pricing following Commonwealth policy changes
- variation in costs and prices across providers, care types, geographical locations and child characteristics,
- factors affecting demand, supply and competition in the sector,
- impact of the above factors on child care provider viability, quality and profits; and
- impact and effectiveness of existing price regulation mechanisms.

The overlap between the scope of the ACCC inquiry and this proposed costing study should not preclude the department from taking action – as these are distinct studies. The ACCC Pricing Inquiry will gather and analyse information at a point in time, while this proposed opportunity is for a more dynamic, regular collection of costs of delivery over time.

This proposed collection will enable the department to establish an enduring collection to monitor impacts of external shocks on costs, and to inform more proactive market monitoring of costs and pricing on an ongoing basis. Where possible, there is an opportunity for the department to collaborate with the ACCC to establish a cost collection process through the Inquiry which can form the basis of a regular, dynamic database and support a potential transition to a cost-based funding model.

Opportunity 2.2 | Design and undertake a cost collection exercise

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Rationale

- Beyond the information collected in the Financial Viability Framework, the department currently has limited evidence to dynamically monitor the cost of delivering quality ECEC services, and the variation in this cost across different delivery contexts, such as regional, and metropolitan settings, or for children with additional needs.
- Without this information, it is challenging to identify provider margins and to assess the profitability of providers. In turn, it becomes difficult to measure the overall health and viability of the market.
- Where the cost of delivery varies in different delivery contexts (e.g. by care type, region of delivery) and for children with additional or specific needs (e.g. children with disability), it is challenging to assess the financial viability of delivery, to diagnose thin markets, and to identify whether there are opportunities to support accessibility and affordability through funding.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:

Accessibility	Affordability	Quality	Connectedness	Sustainability
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By ensuring that families are:

1. Empowered

By supporting provision that is:

4. Operationally viable	5. Financially viable	6. Competitive	7. Accountable
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- Greater visibility over the costs of provision will support transparency into margins and competition, and ensure funding is calibrated to incentivise quality delivery (Precondition 6: Competitive providers).
- Costs provide a clear benchmark to assess the financial viability of providers and intervene effectively in thin markets with high-fixed costs (Precondition 5: Financial viability, Precondition 2: Empowered families).
- Cost information can be used to consider and evaluate options for workforce investments and assess the implications for the prices faced by families (Precondition 4: Operational viability, Precondition 2: Empowered families).
- Improved understanding of the costs of delivery (e.g., cost structures of across different contexts, profit margins of providers) would enable the department and other system actors monitor and intervene against fraud (Precondition 7: Accountable providers).

Key consultation findings

Consultations revealed that there is limited available data on the cost of delivering quality ECEC services and how this cost differs across different delivery contexts. As a result, actors across the system have identified challenges in assessing the profitability of providers and the overall health of the market.

Transparency around the cost of provision

- A **lack of transparency around the cost of provision** has contributed to concerns that providers are generating excessive profits and, during the COVID-19 pandemic, limited the ability of the government to locate and support centres which were at financial risk.
- There is uncertainty around the **relationship between cost, quality and outcomes** in the ECEC sector. As a result, the department has imperfect information with which to make informed decisions on funding and workforce investments.

Cost drivers

- The two most significant costs for providers relate to labour (wages) and capital (rent, occupancy costs).
- Attracting and retaining a **suitably sized and skilled workforce** is a major issue facing the ECEC sector. Consultees raised concerns that the cost of increasing the compensation for ECEC workers would be passed onto families.
- Some consultees noted that competition may not be effective in reducing families out-of-pocket fees due to the **substantial fixed costs** associated with ECEC provision. In highly competitive markets, the discretionary spending of providers (e.g., professional development and inclusion support) may be cut, potentially decreasing quality.

Variation in cost

- The **costs faced by providers differ significantly** based on a range of factors (e.g., care type, delivery setting, location and level of specialist intervention required).
- The financial viability of providers who in regional and remote communities is threatened by high fixed overhead costs, and is often exacerbated by volatile where demand (and vacancies) in smaller communities.

Opportunity 2.2 | Design and undertake a cost collection exercise

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Levers



• **Information provision:** By establishing an evidence-base on the cost-of-service delivery, the department is engaging in information sharing between providers and government.



• **Integration:** Data collection and analysis, and assessing the impacts of these findings will require strong intergovernmental coordination and collaboration.

Key stakeholders

- **The department:** will oversee the establishment of an evidence base on the costs of service delivery in ECEC.
- **Providers:** may have information collected from them on their service delivery (e.g., profits, costs, services offered) and would be heavily impacted by any resulting changes to funding.
- **Other government agencies:** may have information collected from them about the costs of service delivery.

Next steps

As a first step, the department should develop a proposal for data collection, which includes:

- The **scope and purpose** of the additional collection
- **Legal implications**, including the potential need to alter Family Assistance Law, and to comply with privacy requirements
- A **methodology** for cost collection and efficient cost analysis. ^

Implementation considerations

Extent of change 	Establishing an evidence-base on the cost-of-delivery would reflect a departure from the current approach of focusing primarily on the size of government subsidies. It has substantial potential to change the dynamic between government and providers, as well as improving affordability for families.
Risk 	The key risks of collating data on the cost of service delivery relate to provider participation (including across a diverse sample of providers and families) and data management. Risks can be mitigated through clear communication with providers, utilising appropriately skilled staff and ensuring data is collected from all types of providers.
Potential cost 	Additional costs may be incurred to develop and operate a more expansive data collection. Costs could be minimised by considering options to extend current data collections or to automate some processes. A staged approach to implementation can support the design of an operationally- and cost-efficient data collection process.
Specialist capabilities 	<ul style="list-style-type: none"> • Data collection and management • Methodology development and implementation of cost analysis • External stakeholder consultation and coordination
Policy contingencies 	The PC Inquiry and ACCC Price Inquiry may require that the department refines its approach to collecting data on the costs of service delivery, sharing data and collaborating with other government departments.

Opportunity 2.3 | Monitor child and family need in the CCS market

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Overview

There is an opportunity to increase mandatory data collection required as a condition of CCS funding to capture information on children's demographic characteristics and need (e.g. disadvantage, migrant or CALD status, disability) and to identify the opportunities to meet this need through wrap around service provision, new care types or more culturally suitable service delivery.

Increasing the **consistency, coverage and depth** of market intelligence relating to the needs of families and their children participating in the ECEC market will allow the department, as a steward of the CCS, to:

- Establish a consistent and complete collection of information on families and children from diverse and disadvantaged backgrounds and communities, including unique needs of First Nations children and community-controlled First Nations services operating within the CCS market (e.g. participation, experience and outcomes)
- Understand the needs of children and families to support improvements in service provision and quality throughout the ECEC market
- Enable improved management of the ECEC market including the design of policies, programs, incentives and interventions informed by systematic evidence.

The approach, at a minimum, would include:

- Extension of the **mandatory collection**, under the auspices of the Child Care Subsidy (CCS) and the Australian Bureau of Statistics (ABS) census, of information regarding children and family demographic characteristics. To the extent this data is held by other agencies, this would include developing a more comprehensive collection and promote data sharing with other agencies relating to:
 - Children with disability
 - Indigenous families and their children
 - Families facing economic or social disadvantage
 - Children and families living in rural and remote communities
 - Children and families from culturally and linguistically diverse backgrounds
 - Children and families from migrant or refugee communities.
- **Systematic consultation** with families (as end users) to identify opportunities to meet the needs of families and children through policy, program or market intervention including an evidence-based that supports innovation in funding design, care type eligibility, integrated service delivery, practice or inclusive practice or workforce.
- The collection and sharing of Commonwealth data is subject to what is permissible under the Australian Privacy Principles (APP), Family Assistance Law (FAL) and other relevant legislation.

Benefits

Extending mandatory data collection and implementing systematic consultations enables:

- increased understanding of the **diverse needs of families** in the ECEC sector and how such needs differ by group (e.g., First Nations families, children with disabilities)
- improved ability to **measure the performance of the sector** against the needs of families (i.e., level of inclusion, access and quality experienced by different groups)
- **efficient market interventions**, which align service delivery to the needs and preferences of families
- an evidence base against which to assess the **suitability of delivery** for families with different types of care needs

Related opportunities

Within this Strategy

This opportunity could inform the department's approach to:

- 5.1 Research options to adopt a more holistic approach to defining, measuring and funding quality
- 5.2 Develop an approach to supply-side funding

The information collected as part of this initiative could be disseminated through the following data collection opportunities:

- 1.2 Establish a framework for the transparency of market information
- 4.2 Adjust CCS settings to support integrated services and place-based delivery models

Outside this Strategy

This opportunity could encompass or support parallel projects including:

- The *Closing the Gap Early Childhood Care and Development Policy Partnership*, and
- The department's *Future Vision* work.

Opportunity 2.3 | Monitor child and family need in the CCS market

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Rationale

- Currently, the department has limited data on the needs of the families and children that utilise ECEC. This is especially true for families from disadvantaged backgrounds.
- Extending mandatory collection and conducting systematic consultation would improve the utilisation of current data infrastructure, increase the department's ability to make evidence-based decisions and enable effective interventions, advancing system objectives (e.g., quality, access, connectedness).
- Developing an understanding of child and family need would also enable the department to take on a stewardship role in disseminating information to other actors, to improve service delivery.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:

Accessibility Affordability Quality Connectedness

By ensuring that families are:

1. Empowered 3. Supported

By supporting provision that is:

- Greater visibility over the provider landscape will support market shaping to facilitate competition across factors such as price, quality and product innovation (Precondition 6)^
- A deeper understanding of market activity – including acquisitions, consolidations and new investments – can ensure that risks to provider viability are identified and managed with minimum disruption to the sector. (Precondition 5: Financially viable provision)
- The collection of information about provider costs and quality will support a more consistent measure of market interventions to improve access. (Precondition 3: Supported families)
- Greater transparency with respect to provider cost, quality and scope of delivery can inform interventions to strengthen the buying power and affordability of services for families in the ECEC market (Precondition 2: Empowered families)

Key consultation findings

Consultations revealed that, while some data are collected on the characteristics of children in ECEC, it often provided in an ad-hoc and voluntarily manner. Further, this data collection typically does not reflect the needs of families, particularly those with disadvantaged backgrounds.

Consistency

- The needs of families are **not always defined coherently nor consistently measured**.
- Data collected on the characteristics of children in ECEC is **limited** and tends to be **categorical**, rather than dimensioning the needs of the child.

Coverage

- The CCS doesn't necessarily reflect the **diverse needs of families and children**.
- There are **limitations in access and affordability** for families requiring specialist or more flexible care options (i.e., out-of-hours care for children of shift-workers or specialised care for children with disabilities).
- Care is often **not available or not suitable in thin markets**,^ especially in regional or remote areas, areas with high levels of disadvantage, or for children where additional support may be required.

Depth

- The data collected on families **lacks the depth** needed to tailor ECEC provision to their needs. In particular, there is very limited qualitative data available.
- Families often access a range of services beyond ECEC and **the integration between services can lack cohesion** leading to increased complexity and confusion.
- A lack of **trust in government** can be associated with a reluctance to engage in ECEC and other services from some communities (e.g., from First Nations communities).

Opportunity 2.3 | Monitor child and family need in the CCS market

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Levers



• **Information provision:** By consulting with families and collecting data from providers, the department is engaging in information sharing.



• **Policy and coordination:** The department may need to conduct policy reform to extend the mandatory collection of data under the CCS.

Key stakeholders

- **The department:** will oversee the extension of mandatory collection and the systematic consultation of families.
- **Providers:** will have information collected from them on the children and family demographics of those in their care.
- **Families:** will engage in systematic consultation with the Government around their needs and preferences for ECEC service delivery.
- **Other government agencies:** may be consulted by the department throughout the Review and will develop an understanding of the department's role as a steward in the sector.

Next steps

The success of this initiative (the full realisation of the benefits) will be contingent on:

- Consultation with other related agencies confirm the **current scope of any regular consultations** with families, especially with diverse communities
- The development of an agreed approach to consultation with families, including clarity on the intended sample, and frequency of collection.
- The creation of a proposal for the expansion of mandatory data collection, which includes the scope and purpose of the additional collection, its legal implications and a staged approach to implementation.

Implementation considerations

Extent of change 	Collecting detailed information from providers and engaging in systematic consultation would reflect a departure from the current approach and could signal a change in the relationship between providers, families and the government.
Risk 	The key risks associated with systematically consulting with families is a lack of family buy-in, poor management of families' expectations and privacy risks associated with collecting the personal information of families. Risks can be mitigated through clear communication about the purpose, scope and benefits of this data collection for the sector, as well as strong data protection measures.
Potential cost 	Additional costs may be incurred to develop and operate a more expansive data collection. Costs could be minimised by considering options to extend current data collections or to automate some processes. A stages approach to implementation can support the design of an operationally- and cost-efficient data collection process.
Specialist capabilities 	<ul style="list-style-type: none"> • Consultation and ongoing communication with the sector to establish and implement the collection effectively. • Data management, including managing data release agreements
Policy contingencies 	Implementing this opportunity in a way which mandates collection of data from providers may require changes to the <i>Family Assistance Law</i> . The data collection may be a contingency to the effective implementation of other policies.

Opportunity 2.4 | Build a supply and demand model for the CCS market

Overview

There is an opportunity for the department, as a market steward, to lead the development of a shared supply and demand model^a for the CCS market to improve visibility of market dynamics for all jurisdictions and provide a consistent, timely and relevant input into policy and funding decisions throughout the ECEC system.

This would seek to provide ECEC market and system stewards with a more accurate picture of supply and demand in the market, which includes:

- a more **granular view of market dynamics** across jurisdictions and locations, including an understanding of the influence of localised factors such as
 - demographics
 - family structure
 - workforce participation,
 - cultural attitudes in relation to care,
 - employment (unemployment) and
 - local economic profiles (i.e. sector/industry and the nature of employment).
- **improved forecasting capabilities** to understand future discrepancies between the provision of places and future demand (including population growth and birth rates)
- greater insight into the **possible prevalence and magnitude of market failure** (for example, the pace of supply growth in relation to other factors such as population growth or housing development approvals).

The development and implementation of this modelling could be phased, and include:

1. Leveraging the information in the CCMS, and other government sources (e.g. ABS) the department would have access to the minimum required data to develop a supply and demand model focusing on the CCS market.
2. Extending this database to inform a model which covers non CCS provision. This would provide particular value in markets with a lower share of CCS provision, including SA, TAS, WA and QLD. Developing such a model would require the department to seek clarification with jurisdictions about their non-CCS delivery.
3. Using the model as a lever to support greater alignment between Commonwealth and State and Territory Governments decision making, such as using this information to collaborate in the provider approvals process.

Benefits

Building a supply and demand model for the ECEC market enables:

- a stronger understanding of **local demand** in order to meet the needs of families
- easier identification of **markets where intervention** is required, such as where oversupply and tight competition risks provider viability.
- **provider approval decisions** to be made with reference to local supply and demand, and
- improved and increased **capacity to collaborate with State and Territory Governments** and other agencies. This will enable timely and robust data to inform decision making and policy evaluations.

Related opportunities

Within this Strategy

Other opportunities in this Strategy will inform the scope and evidence used in this supply and demand model. These opportunities include:

- *Monitor child and family need* (Opportunity 2.3), as the needs and preferences of families play a key role in determining local dynamics
- *Establishing a framework for the transparency of market information* (Opportunity 1.2), which would provide the information needed to build a supply and demand model for the ECEC
- *Improve the ability to measure market dynamics* (Opportunity 2.1), which would expand the collection of provider-specific information to identify emerging risks in provider behaviour and the health of the CCS market
- *Design and undertake a cost collection exercise* (Opportunity 2.2), as the design of a supply and demand model is strongly linked to the increased collection of information from providers

Outside this Strategy

- While the Productivity Commission Inquiry and the ACCC Pricing Inquiry will gather and analyse related information at a point in time, this does not preclude the department from developing a supply and demand model that is more dynamic and granular, and can inform ongoing collaboration with States and Territories and other government agencies.
- The Market Monitoring Framework that the department is currently developing will likely contain partial information on measures of supply and demand in the ECEC market.

Opportunity 2.4 | Build a supply and demand model for the CCS market

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Rationale

- A focus for the market steward is to **create the conditions** for actors to **work towards shared objectives**, rather than imposing conditions or leaving market forces to move freely. Embedding a sense of shared responsibility for the system relies on the flow of relevant, useful and high-quality information.
- Across consultations, stakeholders identified **challenges in making timely and effective policy decisions due to a lack of information** about supply and demand in the CCS market.
- A more sophisticated **supply and demand model** which utilises information already collected through the CCS IT System could present a solution to these challenges. This model could inform decisions about service approvals, subsidy levels and funded care types.
- A detailed model of supply and demand will enable the Commonwealth to identify areas of potential oversupply in the market, where extreme competition could be at the detriment of quality provision.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:

Accessibility	Affordability	Quality	Connectedness	Sustainability
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By ensuring that families are:

3. Supported

By supporting provision that is:

5. Financially viable

6. Competitive

- By ensuring that there is appropriate supply in the market to meet demand, the department can enable a sustainable level of competition (Opportunity 6: Competitive providers).
- Intervening in the market to ensure sufficient supply and demand reduces situations of oversupply and excess competition, which threaten the financial viability of providers (Opportunity 5: Financially viable).
- A supply and demand model can be used to ensure the market has sufficient competition to enable access for disadvantaged groups (e.g., First Nations families, regional and remote communities) (Opportunity 3: Supported families).

Consultation findings

Visibility over supply and demand

- Both providers and government stakeholders identified limitations in their understanding of supply and demand in the child care market, especially at a granular (localised) level.
- For providers, limited visibility over demand and a lack of understanding of local need has impeded their ability to make informed decisions about service.

Provider approvals and role clarity

- Provider approvals for the CCS are not made with reference to the current level of demand for or supply of services in the CCS market. Under the previous model, a regulatory authority approved new centres based on market demand and supply levels. Today, building developers determine the locations of new ECEC centres based on their own financial metrics.[^]
- Providers experience overlap when seeking approval for their new service as a result of the dual regulatory framework. State and territory regulatory authorities are responsible for approving how a provider operates, with consideration for child safety and developmental outcomes. On the other hand, the department is responsible for assessing the financial competency of a provider to manage the subsidy for families. There is no clear agency responsible for determining the need for an additional service in a given area.

Coordination with jurisdictional governments

- State Government identified an opportunity to work with the Commonwealth to identify gaps in market delivery (e.g. child care deserts) and areas of insufficient choice for families. This would reduce duplication and inconsistency across departments when introducing related initiatives.
- There is an opportunity to improve the integration of CCS care types and legacy state-based systems across jurisdictions, including preschool. This would reduce complexity for families and encourage participation.

Opportunity 2.4 | Build a supply and demand model for the CCS market

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Levers



Information provision: Building a supply and demand model will require information to be gathered, analysed and disseminated.



Regulation: The insights garnered from the supply and demand model will be used to inform better market regulation.



Integration: To effectively build and utilise a supply and demand model for the ECEC market will require the integration of different data sources, as well as collaboration between government stewards.



Policy and collaboration: Building a supply and demand model would require collaboration between the Australian and State and Territory Governments in collecting the required data, and sharing insights to maximise their impact.

Key stakeholders

- **The department:** will lead the development of the supply and demand model as the primary steward of the CCS market.
- **ACECQA:** will provide information to the department to inform the development of the supply and demand model.
- **State and territory governments:** will utilise the model to inform their own decision making. If desired, they may also provide data relating to the non-CCS market and use this to guide more complete decision-making.
- **Providers:** will be strongly impacted by interventions undertaken as a result of this model. For example, they may be directed into areas with unmet demand.

Next steps

The success of this initiative (the full realisation of the benefits) will be contingent on a clear scope and purpose which is well communicated to the other actors involved. As a first step, the department should develop a proposal which identifies:

- The scope and purpose of a model including its minimum functions to support decision making
- The data required to build a CCS-market focused supply and demand model,
- the other government data custodians (e.g. ABS, ATO, ACECQA) that will need to be consulted as part of the development process
- Legal implications, including the potential need to alter Family Assistance Law, and to comply with privacy requirements
- A staged approach to model build and data collation, With consideration of cost and timelines.

Implementation considerations

Extent of change 	<p>The department developing a supply and demand model for the ECEC market would not represent a major departure from current practice. The key change would be the gathering of granular evidence, including minor additional collections from the CCMS (which is already included in Opportunity 1.2).</p>
Risk 	<p>The main risk of building a supply and demand model for the ECEC market is that it is inaccurate and, as a result, leads to ineffective intervention. This risk can be reduced by collecting granular and timely information at regular intervals, employing sufficiently skilled staff and conducting regular updates and checks.</p>
Potential cost 	<p>Building and maintaining an effective supply and demand model for the ECEC market would require a substantial investment (e.g., time and data expertise). Costs could be minimised by considering options to extend current data collections or to automate some processes. A stages approach to implementation can support the design of an operationally- and cost-efficient data collection process.</p>
Specialist capabilities 	<ul style="list-style-type: none"> • Consultation and ongoing communication with the sector to establish and implement the collection effectively. • Data analysis • Data management, including managing data release agreements
Policy contingencies 	<p>The Productivity Commission Inquiry and the ACCC Pricing Inquiry will likely gather and analyse related information at a point in time. However, this does not preclude the department from developing a supply and demand model that is more dynamic and granular, and can inform ongoing collaboration with States and Territories and other government agencies.</p>

3. A view on the effectiveness of policy settings



Opportunity 3.1 | Review the Child Care Subsidy (CCS)

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Overview

This opportunity would involve undertaking a comprehensive review of the Child Care Subsidy (CCS) to examine its performance and contribution to the system goals.

Review of the CCS should respond to the effectiveness of policy settings for First Nations communities, noting measures supported under Closing the Gap and the Early Childhood Care and Development Policy Partnership.

This would involve three major components:

1. Analyse how effectively existing settings contribute to meeting the outcomes and objectives of the ECEC System.

- In the first instance, the Review would seek to assess performance against a set of known and implicit system objectives. This would include the constructs of accessibility, affordability, quality, connectedness, sustainability and equity, and determine if existing policy and program settings are delivering system outcomes (workforce participation and children's development outcomes) in an efficient, effective and equitable manner.
- This review would support the department to understand the strengths, as well as the deficiencies and gaps in the current system, and inform improvements to better calibrate the funding model (see 'related opportunities').

The scope of this Review would ideally conclude

- the appropriateness of the **Additional Child Care Subsidy (ACCS)** program in meeting the needs of vulnerable families and children, including the cultural appropriateness of the program for Indigenous families.
- the appropriateness of the current **care types funded under the CCS** in meeting the needs of different families, the potential for better integration between care types and navigability for families, and the relative costs and benefits of introducing additional care types into the CCS to support currently non-CCS-eligible services to meet the needs of families

2. Consider the role of the CCS in responding to different future policy scenarios.

- The Review terms of reference should also enable the department to explore options for the CCS to be designed with reference to broader reforms in the ECEC ecosystem.
- This could include:
 - assessing the likely outcomes associated with a transition towards a 90% universal subsidy, and the capacity of the current CCS to support this model.
 - considering the CCS in the context of the longer-term vision for the sector that is being

developed, the direction of the Early Years Strategy and the findings and recommendations of the PC Inquiry and ACCC Price Inquiry.

3. Establish role clarity on the contribution of the CCS to the system

- The CCS Review could provide an opportunity for the department to develop a robust evidence-based of system performance to inform other independent reviews, and to assess the department's role in contributing to the evolving policy priorities and sector landscape.
- This review would inform the department's position as a steward over the system objectives of the CCS – including the ways in which market shaping within the CCS can enable these objectives to be achieved.

Benefits

Undertaking a comprehensive review of the CSS would enable:

- increased **understanding** of the **impact of current policy** setting on the ECEC sector
- greater **awareness** of the **alignment between provision and need**, particularly for families living in remote and regional communities, First Nations peoples and children with a disability
- **improved ability to adapt levers** in the CCS response to align with changes in the ECEC ecosystem, such as changing policy settings at a jurisdictional level, or changing priorities at a national level.
- **informed plans for future policy scenarios**, based on a rich understanding of system settings

Rationale

- Consultations revealed conflicting perspectives on the **impact of current policy** settings on the ECEC sector's performance.
- There is also a lack of clarity on the explicit and implicit objectives of the CCS. Several consultee noted that the CCS is often framed with a focus on affordability and access, diminishing the importance of the funding levers supporting other outcomes, such as quality, equity, and connected and sustainable service provision.
- Parallel reforms and reviews of the ECEC sector – including the Early Years Strategy, the PC Inquiry and the ACCC Price Inquiry – strengthen the impetus for the department to understand the possible evolution of the role of the CCS in supporting families and their children within the ECEC landscape.



Opportunity 3.1 | Review the Child Care Subsidy (CCS)

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Related opportunities

Within this Strategy

- The findings from this Review may inform policy decisions regarding other components of the ECEC funding model, including to Review the CCCF (Opportunity 4.1), and a Review of the supports for children with disability (Opportunity 3.3)
- The findings from this review could also provide an evidence base with which to consider the purpose and scope of the CCS, as well as the objectives of funding. This could inform the approach to opportunities such as researching options to adopt a more holistic approach to funding quality (Opportunity 5.1)
- The review would also provide the department with a stronger understanding of the current state, in order to compare alternative funding models. Some of these options might include integrated service delivery and place-based delivery models (Opportunity 4.2) and/or supply side funding (Opportunity 5.2).

The Productivity Commission Inquiry

While the terms of reference are yet to be released, the Productivity Commission Inquiry is expected to include a review of the ECEC system and the capacity of the sector to transition toward a universal 90 per cent subsidy model.

This overlap would not preclude the department from undertaking a pre-emptive review into the CCS, understand limitations in the system's current performance and consider its role in supporting system improvements as a steward over the CCS market.

In fact, this may provide an opportunity for the department to undertake its own review which considers the role of the CCS in supporting the sector's dual outcomes: educational outcomes for children and workforce participation for parents.

The department's pre-emptive review could take a forward looking view of the system objectives and the different ways to achieve them – including considering the department's role as a steward over these objectives. These findings might inform the department's approach to market-shaping prior to the Productivity Commission Inquiry, and in response to its recommendations.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve

Accessibility	Affordability	Quality	Connectedness	Sustainability
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By ensuring that families are:

1. Empowered	2. Informed	3. Supported
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By supporting provision that is:

4. Operationally viable	5. Financially viable	6. Competitive	7. Accountable
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- A Review of the CCS which considers performance against the defined outcomes and objectives of the system is expected to have an impact across the suite of market 'preconditions' – noting that the level of impact will depend on the findings and recommendations made as part of the Review.
- To support **families**, the Review would seek to increase the alignment between the services provided and the needs of families. Such improvements may
 - lower costs for families (Precondition 1: Empowered)
 - increase the clarity of the choices families' face (Precondition 2: Informed)
 - improve the suitability of care in terms of volume and flexibility (Precondition 3: Supported)
- Tailoring the CCS to the needs of families would ensure that **providers**
 - Receive sufficient funding to operate with financial and operational viability (preconditions 4, 5)
 - Face sufficient incentives in terms of funding and eligibility to enable sustainability (precondition 6)
 - Are held responsible for delivering quality services to families consistent with law and they are funded for (precondition 7).

Opportunity 3.1 | Review the Child Care Subsidy (CCS)

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Consultation findings

The consultation series gathered a range of insights into the current performance of the CCS, and potential opportunities to extend the remit of the CCS to support system objectives.

Undertaking a Review of the CCS would involve developing the evidence base required to address identified issues and opportunities. These include:

Equity as an explicit objective of the CCS

- There is limited current assessment of CCS performance through an **equity lens** despite the evidence base linking high quality ECEC to a positive impact on children's learning and development
- Perspectives varied as to whether the connections and interdependencies between CCS funding and wider issues of equity in access were within **the remit of the Department of Education**.

Role of the CCS in supporting quality, connectedness, and early childhood development outcomes

- An opportunity was identified for the department to act as steward with respect to **quality** in ECEC, with a focus on how the sector can be **connected** to other service providers to provide holistic early years development.
- It was not clear to consultees whether CCS would require wholesale changes to ensure provision is sufficiently connected to other services, to support holistic early development for children. However, consultees did note concerns around pricing and subsidy levels to better support access to certain delivery models.

Accessibility and effectiveness of the Additional CCS

- The ACCS is an **important component** of the ECEC sector, improving the accessibility and affordability of ECEC for vulnerable and disadvantaged families by reducing the cost of approved child care.
- However, there is a large **administrative burden** associated with the ACCS, which can disincentivise the participation of families and providers. Families have faced inconsistent rules and lengthy delays when applying for the ACCS. In instances where eligibility, providers described that they can be required to act as "debt collectors," threatening their financial viability.

- The ACCS, particularly the Child Wellbeing subsidy, has been found to be **culturally unsafe** for First Nations peoples. The requirement that families disclose that they are at risk of exposing their child to neglect, abuse or harm disincentivises families from engaging with the ACCS. This in turn, reduces ECEC participation.
- Funding provided through the ACCS may not be of a **sufficient quantity** to support the outcomes and objectives of the ECEC sector. As the department doesn't have a strong understanding of the cost of provision, particularly in disadvantaged communities, it is difficult to determine if providers are being adequately supported to care for vulnerable children.

CCS eligibility criteria, funded care types and provider approvals

- There may be an opportunity for the CCS eligibility to support greater **flexibility** in services, as consultees noted the CCS has somewhat limited options for families who require shorter periods of care which do not meet the subsidy eligibility criteria. This is notwithstanding the fact that the introduction of CCS meant that CBDC/OSHC services no longer have mandatory opening hours, and just a requirement that they operate the required number of weeks and primarily offer the care type for which they are approved.
- A funding system which is **centred around care types** can create challenges for families in navigating the system and making informed choices. Some consultees proposed alternative approaches to funding, such as aligning provider eligibility and approvals processes to children's needs and to local levels of demand and existing supply.
- Child care and preschool services are poorly linked to one another and need greater integration to meet the needs of families. This reflects that their formats vary across jurisdictions - while the department is responsible for funding the CCS, preschools are primarily the responsibility of state governments.
- Reflecting on issues with inclusion and equity, one consultee noted that the funding model design is defined in terms of care types, rather than child need, and that this can hinder navigability for families and lead to instances of overlaps or gaps in provision. A primary example of this, noted by other consultees, was the connections between the child care and preschool sectors, which was described as not meeting the needs of families and children. While the department is responsible for funding for child care services, preschools are primarily the responsibility of the state or territory government, meaning its format varies across jurisdictions. With the two running in parallel, consultees identified that these services could be better integrated to support ease of access and wraparound support for families.

1 Coordination and clarity on current market interventions

2 A comprehensive evidence base to inform market shaping

3 A view on the effectiveness of policy settings

4 A set of reforms to funding model design

5 An evolution in the scope and purpose of the CCS

Opportunity 3.1 | Review the Child Care Subsidy (CCS)

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Levers



Funding: By reviewing and, possibly, altering the CCS, the Department is engaging in funding reform.



Integration: When reviewing the CCS, there may be opportunities to integrate processes with other agencies that provide additive or complementary funding to the CCS.



Regulation: Regulatory changes may be required to reform the CCS in response to review findings.



Policy and coordination: Policy changes may be required to reform the CCS in response to review findings.

Key stakeholders

- **The Department:** will oversee the review into the CCS, determining the terms of reference in consultation with other actors.
- **Families:** will be a key stakeholder in the CCS review and should be central to consultation. They may be heavily impacted by any CCS reforms.
- **Providers:** will have information collected from them and may also be heavily impacted by any CCS reforms.
- **Other government agencies:** may be consulted by the Department throughout the Review and will develop an understanding of the Department's role as a steward in the sector.

Next steps

Develop a clear **terms of reference** for the review, including

- defining the current and potential future objectives of the CCS which the Review might consider (e.g. equity, connectedness)
- identifying the parallel policy reforms which the Review should (or should not) consider (e.g. Early Years Strategy)
- the scope of the CCS settings which are to be considered (e.g. care types, eligibility settings, and funding levels)
- a clear perspective on the potential role of the Commonwealth in relation to management of the ECEC system and the remit of the Department as a steward.
- an understanding of the purpose and objectives of the ACCS

Implementation considerations

Extent of change 	<p>Undertaking the Review itself would not necessitate a change in the CCS. The impact of reviewing the CCS would depend entirely on its findings. If substantial changes are suggested by the Review, it could have a large effect on the ECEC sector.</p>
Risk 	<p>The key risks of conducting a review of the CCS are an unclear terms of reference, a lack of consultation with key groups (e.g., First Nations families) and ineffective outputs. These risks can be mitigated through developing an extensive review plan, consulting a diverse sample of the ECEC sector and hiring experienced policy analysts with a wealth of ECEC knowledge.</p>
Potential cost 	<p>The costs of implementing a review of the CCS are relatively low. While a review will require a substantial time investment from skilled policy analysts with a intricate knowledge of the CCS, it does not depend on large amounts of infrastructure or funding.</p>
Specialist capabilities 	<ul style="list-style-type: none"> • Intricate knowledge of the CCS and its history • External stakeholder consultation and coordination • Research and policy analysis
Policy contingencies 	<p>The Productivity Commission review may overlap with this review of the CCS. Establishing a clear terms of reference regarding the CCS review will be critical to ensuring the Review's usefulness in a period of policy change.</p>

Opportunity 3.2 | Adopt new nomenclature for the CCS

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Overview

As a steward, consider opportunities within the remit of the department's activities to adopt new nomenclature for the sector, which recognises the educational outcomes supported through the provision of ECEC services to children and their families.

A change in the naming convention used by the department – as the steward over the largest investment model in the sector which uses the language of 'Child care' – would constitute a change in the framing of the sector to the families, providers and the sector's workforce. This opportunity might involve re-naming the Child Care Subsidy, but also encompass other language which the department uses to communicate the objectives and value of ECEC, including its contribution to educational attainment, school-readiness and social equity.

Such a change would seek to:

- Emphasise that the department seeks to achieve dual **objectives for the ECEC market**: (1) to include supporting child development and educational outcomes and (2) to enable workforce participation for families with children – where the latter goal has been a more traditional point of focus.
- Recognise the **existing mechanisms** in place to support quality educational outcomes for children and their families, through regulations including the National Quality Framework and Early Years' Learning framework.
- Recognise the journey the sector has been on to **communicate its educational value** to families and the public, including to nudge families toward greater participation where cultural barriers relating to perceptions of the care sector exist.
- Strengthen perceptions of the **sector's workforce** and emphasise its contribution to educational outcomes (and long-term economic and social benefits) made through the teaching and investment of children.

Re-naming the Child Care Subsidy, and other related funding models and policy instruments, to more clearly reflect the dual objectives of the sector (education and participation) reflects only one initiative that will partially contribute to achieving these outcomes.

To ensure the change in nomenclature credibly and effectively achieved the cultural change sought from this proposal, it should be delivered alongside a portfolio of reforms to lift the status of the sector as a service and a profession.

Benefits

- Emphasise and clarify the **intent of CCS policy** in supporting educational outcomes for children, which in turn supports role clarity for the department as a steward over these outcomes.
- Support in raising the profile of the **workforce** to communicate the value of contributions made by teachers and educators.
- Nudge **families and communities** toward perceptions of the sector as holding education value for children, and strengthen the accessibility of the sector through more consistent naming conventions.
- Strengthen the impetus for **providers** to consider and demonstrate the role that they play in supporting the educational outcomes for children in their care.

Related opportunities

Within this Strategy

Implementing this opportunity will involve careful consideration of the other parallel policy approaches which will be required to achieve the desired change. This change in language might be implemented as part of, or alongside, the decisions to:

- Review the Child Care Subsidy (Opportunity 3.1)
- Clarify the department's role in supporting the CCS workforce (Opportunity 3.4)

Early Years Strategy

- The Commonwealth Early Years Strategy, aims to create a new integrated, holistic, whole-of-government approach to ensure children aged five years and below have the best start at life in their critical early years of development.
- The language used as part of this strategy – and its focus on broader education and wellbeing outcomes from the public services delivered to children – could inform the approaches used by the department to adopt new language. The launch of the Early Years Strategy (and associated National Early Years Strategy in early 2023) may also present an appropriate juncture to adopt this new language and associated reform.

ACECQA workforce strategy

ACECQA National Workforce strategy (2022-31) outlined several related opportunities to support the development of a sufficient and capable workforce, which the department may support in parallel with a change in nomenclature.



Opportunity 3.2 | Adopt new nomenclature for the CCS

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Rationale

There is an opportunity for the department to lead the sector to move away from the historical nomenclature of 'child care', to reiterate the educational outcomes supported through ECEC. This could include renaming the *Child Care Subsidy* as part of a suite of changes following a CCS review.

This strategy recognises role of the department to steward the sector toward the dual contributions of the ECEC to the Australian community:

1. supporting child development and educational outcomes and
2. enabling workforce participation for families with children.

While the relative emphasis placed on each of these two system outcomes has varied over time, consultations indicated that the objective of improving workforce participation tends to receive more emphasis in public discourse, which can overshadow the role of ECEC teachers and educators in contributing to children's early learning and development outcomes.

A change in the naming convention used by the department – particularly where delivered alongside a suite of related reforms – can enable a change in the framing of the sector and its public value.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:



By ensuring that families are:



By supporting provision that is:



A change in the language for the sector which impacts its framing to users, government and the sector is expected to have an impact across the suite of objectives and market preconditions.

- To support **families**, a change in the language might
 - Clarify the purpose and intended outcomes from the investments made by government and families (Precondition 1: Empowered)
 - Inform the choices which families make about participation (Precondition 2: Informed)
 - Ensure that the workforce are valued, support and able to deliver quality and suitable care (Precondition 3: Supported)
- A change in the language used may enable better outcomes for **providers** by
 - Supporting the ECEC workforce, which is critical to providers' operational viability (precondition 5)
 - Are held accountable to deliver both the care and education outcomes they are funded for, and to compete with other services on this dual bases (preconditions 6, 7).

Consultation findings

Perceptions of the sector and its value

- Consultees noted that the sector may have poor workforce retention due to workers feeling undervalued – and that this was partially driven by language. Consultees noted that the term 'child care' can be seen as undermining teachers' and educators' contributions to the education of young children, especially when compared to the educational contributions of school teachers.
- Some Government agencies noted a conscious decision not to use the term 'child care', but rather 'early childhood education and care', reflecting that they see services as being integrated to include education and care activities. This integration also adds to the value and professionalism of the sector as an 'essential service'.
- Other consultees reiterated the influence the language can have on perceptions of the sector, and cited language change as a simple opportunity to signal to the community the importance of ECEC.
- However, increased awareness of the role of ECEC in early childhood development, combined with a push to expand the workforce to deliver on election commitments, is driving educators and staff to seek improved wages and conditions. Providers have argued that increases to pay will lead to higher costs for families.

Naming of the Child Care Subsidy (CCS)

- Consultees noted that while the ACECQA National Workforce Strategy includes a revision of the naming convention from "child care" to "education", and there is agreement with stakeholders to change the dialogue, it is hard when the subsidy itself is for "child care".
- One consultee noted that the name 'child care subsidy' can lead to the perception of the fund as a form of welfare for people who are not able to become stay at home parents. This perception was noted as particularly strong in some communities and cultural contexts.
- PM&C consultees noted that they had not considered a new naming convention, although recognised the desire to professionalise the workforce and raise their profile of teachers and educators through qualification requirements. The consultees noted that this would require a longer term agenda that focuses on cultural and behavioural change across the sector.

Opportunity 3.2 | Adopt new nomenclature for the CCS

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Levers



Information provision: A change in language is a mechanism by which to signal a change in the desired outcomes of the sector.



Integration: A change to the naming of the CCS could support the department to lead the sector not adopt this approach more generally.



Policy and collaboration: where adopting a new naming approach involves confirming the outcomes and objectives which the CCS seeks to achieve, this may have flow on effects for how the department frames policy decisions and collaborates with other actors as a steward over the sector.

Key stakeholders

- **The department:** A change in language could constitute a repositioning of the department as a steward for educational outcomes across the sector, and as a more apparent advocate for the teacher and educator workforce.
- **ACECQA:** any change in language and the roles and responsibilities of the department may have implications for how ACECQA considers quality in the sector.
- **Families:** may perceive the sector differently following a change in the naming convention and place additional focus on the role of the sector in supporting educational outcomes.
- **Teachers and Educators:** may perceive their roles in the sector differently where a change in name strengthens perceptions of their contribution to economic and social outcomes, and by extension, support morale retention and investment in the sector.
- **Providers:** may be incentivised to more strongly articulate their contributions to early development outcomes. Some providers may also hold concerns for the implications of this change for award wages and financial viability.
- **Other government agencies:** a rename of the CCS could be a catalyst for broader changes to the nomenclature across, and reaffirm the role of the sector in supporting children and families across the early years – including through connections to other public services.

Next steps

The two key components of delivering this reform are:

- Undertaking research and consultation to identify the appropriate alternative nomenclature, taking into account the need to strengthen the profile of the sector and ensure language is accessible for families
- identifying the range of parallel policy changes such as reforms to the CCS or other workforce related initiatives which would be appropriate to deliver alongside a change in naming convention.

Implementation considerations

Extent of change 	Adopting new language would reflect a departure from current approaches, notably the language of the child Care Subsidy (CCS) and the <i>Family Assistance Legislation Amendment (Cheaper Child Care) Act 2022</i>
Risk 	There is a risk that new language (e.g. 'early learning' or 'ECEC') is confusing for families, or may create uncertainty about the scope of services provision, which may ultimately hinder access. Consultation and clear communication can minimise this risk. Where not delivered alongside other measures to strengthen perceptions of the workforce, there is a risk that the change is perceived as ingenuine.
Potential cost 	While the cost to change the language of the CCS itself is small, the implication of this change is clear messaging that the subsidy is funding an educational as well as a care component of the services delivered. Some investment may be required to ensure there is sufficient accountability over the outcomes which services are expected to deliver against.
Specialist capabilities 	In line with the above, the capabilities required in the implementation process would depend on the level of accountability which the department seeks to ensure education outcomes are being delivered.
Policy contingencies 	The language used as part of the Early Years Strategy – and its focus on broader education and wellbeing outcomes from the public services delivered to children – could inform the approaches used by the department to adopt new language. The launch of the Early Years Strategy may also present an appropriate juncture to adopt this new language and associated reform.

Opportunity 3.3 | Review supports for children with additional needs across the sector

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Overview

Undertake a comprehensive whole-of-system review to assess the end-to-end experience of children with additional needs in the system. This includes a review with the intent to reform inclusion support practices in the early childhood education and care sector, considering approaches in the both the CCS and non-CCS market.

This Review would consider:

- the **range of supports** available to children with additional needs in ECEC, including supports in schools
- **pedagogy and practice** in relation to delivering services for children with additional needs, and the capability of the workforce to deliver this
- variation in the experience of children and families, and availability of funding and supports **across care types** (including relative to non-CCS settings)
- alternative ways to **project or measure need**, including moving away from a model which is contingent on a diagnosis to obtain funding,
- whether the funding model design which is sustainable and sufficient, relative to need
- **improved uses of funding**, such as capability development for existing staff, allied health services and specialist provision. In extreme cases, the reliance of the ECEC sector on paraprofessional staff may be having deleterious consequences for children.

This review would include – but would be far from limited to - assessing the sufficiency and effectiveness of the *Inclusion Support Program* (ISP) and other related supports as mechanisms to support the experiences of children with additional needs. This Review should ascertain whether the ISP is an optimal instrument for supporting access to affordable and quality care for children with disability, and consider potential alternative models to ensuring holistic supports to children with disability and their families.

Benefits

Reviewing the supports for children with additional needs would support the department to:

- improve the efficiency and sustainability of **current funding** approaches
- identify opportunities for multiple stewards to **collaborate on unified approaches** to delivering supports to children with additional needs.
- reduce policy and funding **overlap** between Commonwealth and State Governments.
- design an **alternative support system** that is not reliant on a diagnosis to secure funding and support

- develop a **informed view** on the appropriate level of **reliance on paraprofessional** supports relative to other types of support workers.

Related opportunities

Within this Strategy

Other opportunities in this Strategy will inform the scope and evidence used in this Review. These opportunities include:

- *Monitor child and family need in the CCS market* (Opportunity 2.3), which could inform a needs-based view of the funding required to support children with additional needs.
- *Establishing a framework for the transparency of market information* (Opportunity 1.2), which would provide the information needed to better identify the number and needs of children with additional needs.
- *Design and conduct a cost collection exercise* (Opportunity 2.2), which would provide the cost data required to inform alternative approaches to funding the provision of specialised care, and
- The findings of this review could inform the design of Opportunity 4.2 – *Adjust CCS settings to support integrated services and place-based delivery models*

Parallel policy reviews

This opportunity could encompass or support parallel opportunities including:

- existing plans for a review of the Inclusion Support Program, noting that a Review of the ISP would not preclude the department from undertaking a broader review of the experiences and supports available for children with additional needs across the sector.
- a potential review of the funding available to students as a part of the CCS Review
- any relevant findings or recommendations from the ACCC Price Inquiry or the PC Inquiry.

Opportunity 3.3 | Review supports for children with additional needs across the sector

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Rationale

- The have detrimental impacts on student learning and development, **disability support system is complex and overlapping**. The patchwork of different and overlapping supports at the state and Commonwealth level make it difficult for some services – particularly centre based day care centres that provide kindergarten programs – to access information about supports.
- Many disability support funding programs have **entry criteria that is too restrictive**. This can have unintended consequences at the service level, including promoting a deficit view of children's capabilities, focusing on diagnosis rather than the needs of the child, and driving the 'conditionality' of support for children on securing funding.
- The **growth in qualified disability support workforce and funding is insufficient** to meet growing demand and to address multiple and intersecting layers of disadvantage. As a result, support workers are often stretched thinly across their caseloads.
- In some cases, funding for early childhood education inclusion can be allocated by centres to **relatively unskilled paraprofessional staff**. While close adult supervision can be useful, an overreliance on paraprofessionals can

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:

Accessibility

Quality

Connectedness

By ensuring that families are:

1. Empowered

3. Supported

By supporting provision that is:

5. Financially viable

7. Accountable

- Improving disability supports would involve making provision better for children with a disability – increasing **access, affordability, quality and connectedness** – and funding it in a financially and operationally **sustainable** manner.
- Reforming disability supports may result in the **removal of financial or service level barriers** to ECEC participation, increasing the affordability and access for families (Precondition 1: Empowered families, Precondition 2: Supported families).

- Effective reforms to additional needs supports would ensure it is **financially viable** for providers to deliver specialised services to children with additional needs and hold providers **accountable for inclusive service delivery** (Precondition 6: Financially viable, Precondition 7: Accountable providers).

Consultation findings

Connectedness between the CCS and other public services

- There is limited cross-government collaboration and cooperation at a policy level. Families needs could be better met if policy was designed and considered across the different areas of government (e.g., health, housing, education and disability), rather than in isolation.
- There is a lack of cohesion and integration between ECEC, the NDIS and public health services, creating a substantial administration burden for families and providers. For example, families may be required to fill out multiple forms with the same information.

Administrative burdens and duplication

- The ISP has a significant administrative burden for both families and providers, potentially impacting the quality of care provided. For example, families have to provide information regarding diagnostics and their inclusion support plan, even though the information is in the NDIS.
- There are complex administrative barriers that prevent families from accessing the ISP. For example, families are unable to apply for the ISP until their child is already attending an ECEC service. The ISP provides support to eligible services to include children with additional needs, it is the service that applies for the ISP, not families.

Limited inclusive offerings

- There is limited flexibility in ECEC for children with additional needs. It is difficult for families with children who have a disability or have additional needs to find quality care outside of school hours. OSHC is a highly casualised workforce, which often lacks the experience and/or training to provide specialised support.
- ECEC services aren't financially incentivised to connect to other supports (e.g., support workers, physiotherapists, occupational therapists). As a result, a significant number of ECEC services don't offer any additional forms of support to children with a disability or additional needs.

1 Coordination and clarity on current market interventions

2 A comprehensive evidence base to inform market shaping

3 A view on the effectiveness of policy settings

4 A set of reforms to funding model design

5 An evolution in the scope and purpose of the CCS

Opportunity 3.3 | Review supports for children with additional needs across the sector

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Levers



Funding: The Review's findings could inform the approach to funding the supports available to children with additional needs.



Policy and coordination: Policy changes may be required to reform supports for children with additional needs in response to review findings.



Integration: Conducting an effective review of supports for children with additional needs will require strong intergovernmental coordination and collaboration.

Key stakeholders

- **The department:** taking a stewardship role over inclusivity in the ECEC sector will oversee the review into additional needs supports, determining the terms of reference in consultation with other actors.
- **Families:** the families of children with additional needs will be a key stakeholder in the Review and should be central to consultation. They may be heavily impacted by any reforms.
- **Providers:** will have information collected from them and may also be heavily impacted by any reforms to the additional needs supports in ECEC.
- **Other government agencies:** may be consulted by the department throughout the Review and will develop an understanding of the department's role as a steward in the sector. Reforms stemming from this Review may further connect these agencies, particularly the NDIA, with the ECEC sector.

Next steps

This opportunity proposes a holistic review of the experiences of children with disability, and their family, across the ECEC system. The success of this Review – including the relevance and usefulness of the recommendations – will be contingent on a clear and sufficient terms of reference. This terms of reference should clearly specify:

- the care types and delivery settings in scope of the review
- the scope of supports under review, including funding, practice guidance, policies and workforce supports
- the workforce considerations in the scope of the review, including a review of the appropriate role for para-professionals and other support workers in the sector.
- accountability and governance mechanisms to ensure effective practice and resource use, and approaches to systemic monitoring or outcomes and practices.

Implementation considerations

Extent of change 	The department's leadership over such a review would indicate a moderate change, including a shift toward a more explicit stewardship model over the sector. The impact of the review itself would depend entirely on its findings, but is expected to be material.
Risk 	The key risks of conducting a review of additional needs supports in the ECEC sector are an unclear terms of reference and a lack of consultation with key groups (e.g., families with a child with additional needs, providers who deliver specialised services, disability experts). These risks can be mitigated through developing an extensive review plan, and consulting extensively with key groups.
Potential cost 	The costs of implementing a review of additional needs supports in the ECEC sector are relatively low. While a review will require a substantial time investment from skilled policy analysts with a intricate knowledge of the sector and of inclusive practice, it does not depend on large amounts of infrastructure or funding.
Specialist capabilities 	<ul style="list-style-type: none"> • Intricate knowledge of disability support and its history • External stakeholder consultation and coordination • Research and policy analysis
Policy contingencies 	The Productivity Commission Inquiry may provide some evidence around additional needs inclusion in ECEC, although this was not a prominent focus of the previous Terms of Reference. The proposal to review supports for children with additional needs across the sector (and any associated reform) would be broader reaching than the Inclusion Support Program, which is currently under review, although findings from this review could be leveraged.

Opportunity 3.4 | Clarify the department's role in supporting the CCS workforce

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Overview

Recognising the CCS is the most significant funding lever which directly supports employment of the workforce, there is an opportunity to consider options for the department as a market steward to take a greater level of responsibility for interventions to manage supply challenges in the CCS market, in collaboration with ACECQA.

This opportunity reflects the central role workforce quality and sustainably plays in the quality of outcomes for children and families. The opportunity would involve establishing a clear role for the department over workforce issues in the CCS market, and would involve two major components:

1. Embedding workforce collections within the Market Monitoring Framework

- This could include refining the National Workforce Census to provide visibility on the workforce dynamics within the CCS market.
- This information can be used by the department to assess the health, viability, or quality of the workforce in the CCS market into the future, and to inform interventions to support the development of the workforce.
- The development of this collection enable to the ECEC system and its stewards to provide an annual estimate of workforce size, composition and shortages, provide a more sophisticated view of turnover across collections (given the direct relationship to quality), assess the level of professional development and training prevalent across the market and understand the pipeline of workforce entering the ECEC market.

2. Increasing engagement with ACECQA on actions within the National Workforce Strategy

- The department, as the largest steward in the CCS market, is in a unique position to collaborate with ACECQA to deliver the National Workforce Strategy.
- For instance, the department can coordinate policy levers within its remit to support the ECEC workforce – such as calibrating VET and Higher Education policy and funding to support a strong pipeline of sufficiently-skilled workers into the sector.
- This may extend to an advocacy role for the qualifications required by Teachers and Educators in the sector, with a focus on communicating the evidence of this training in supporting quality and outcomes for children in ECEC.
- While some industrial relations challenges would (appropriately) sit outside of the remit of the department, an active stewardship model could involve taking action to strengthen professional development opportunities and progression pathways for the workforce.

Benefits

Adopting a stewardship role over the CCS workforce enables:

- greater **clarity** over the **department's responsibilities relative to the CCS workforce**
- improved **alignment between workforce strategies** nationally and at a local level
- increased understanding of how **ECEC workforce challenges may limit wider CCS reform**
- greater **workforce recruitment and retention** within the CCS
- a **high-quality CCS provider workforce**

Related opportunities

Within this Strategy

- Opportunity 3.4 could be delivered in parallel with Opportunity 2.1 – *measure market dynamics*. Greater transparency on workforce is a key component of understanding market dynamics (e.g., cost of delivery, supply).
- Adopting a stewardship approach to the CCS workforce will be enabled by Opportunity 1.2. – *establish a framework for the transparency of ECEC information*.
- Opportunity 3.4 can inform Opportunity 2.4 – *build a supply and demand model for the CCS market*.
- Opportunity 3.4 can be used to validate and assess Opportunity 2.2 – *design and undertake a cost collection exercise*. Greater transparency around workforce will enable the department to understand the relationship between workforce demand, shortages and wages, as well as potential implications for pricing.

ACECQA National Workforce Strategy

ACECQA National Workforce strategy (2022-31) outlined several related opportunities including:

- Undertaking a national workforce census at least every three years
- Committing to an evaluation plan for the national workforce within three years
- Developing options for a live national workforce database within 10 years, with cost-benefit analysis to be conducted by the end of 2025

The department has already progressed several actions identified in the National Workforce Strategy relating to professional recognition, attraction and retention, leadership and capability, qualifications and career pathways and data and evidence.

Other parallel reforms

Understanding the capacity of the current and future ECEC workforce will be key to moving towards a 90% subsidy scheme, and to implementing additional universal access within jurisdictions. While these reforms may require workforce modelling to be undertaken by the ACCC, Productivity Commission, or the states and territories, this does not preclude the department from considering its role in supporting the sector to strengthen its capacity to attract and retain workers.

Opportunity 3.4 | Clarify the department's role in supporting the CCS workforce

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Rationale

- Workforce recruitment and retention presents a major risk to the accessibility, affordability, sustainability and quality of ECEC delivery. For example, it is well-established that high-staff turnover places an unsustainable financial strain on providers and undermines the quality of care delivered to children (e.g., lack of relationship building).
- By adopting a stewardship role over the CCS workforce, the department can monitor the conditions of the ECEC workforce and intervene to prevent workforce challenges from undermining the objectives of the sector.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:

Accessibility

Affordability

Quality

Connectedness

Sustainability

By ensuring that families are:

1. Empowered

3. Supported

By supporting provision that is:

4. Operationally viable

5. Financially viable

- By collaborating with ACECQA to address workforce challenges, the department is making the CCS market more operationally sustainable (Objective 4: Operationally viable providers).
- Improved workforce recruitment and retention would reduce providers' costs (e.g., hiring costs), improving the sustainability of the CCS market (Objective 5: Financially viable providers).
- In a competitive CCS market, a reduction in providers' costs would enable the delivery of more affordable services, increasing the buying power of families (Objective 1: Empowered families).
- A more capable and sustainable workforce would reduce the non-economic costs of care for families – for example, children with disability would be able to access quality, lasting care from specialised professionals (Objective 3: Supported families).

Key consultation findings

Current workforce challenges

- There is a lack of parity in pay and conditions across different types of provision, with the mixed market nature of ECEC complicating workforce strategies.
- ECEC workers have typically experienced low pay and high turnover, particularly during COVID-19.
- However, increased awareness of the role of ECEC in early childhood development, combined with a push to expand the workforce to deliver on election commitments, is driving educators and staff to seek improved wages and conditions. Providers have argued that increases to pay will lead to higher costs for families.
- Skill shortages have incentivised workers to move regularly in search of higher pay, making it challenging for small providers to compete for staff.
- Workforce challenges are exacerbated in thin markets (e.g., rural settings). There is a lack of certainty among the sector as to the role of government in intervening in these thin markets.

The need for a steward on workforce issues

- ACECQA plays a partial stewardship role over the ECEC workforce and shares responsibility with all governments for the National Workforce Strategy.
- Providers cited workforce pipeline, conditions and wages key areas where there are gaps in stewardship.
- Stakeholders consistently highlighted their inability to recruit suitable staff, and the negative impact that this has on their ability to operate high-quality services in a diverse range of settings.
- There is uncertainty among some state government departments over the responsibility of the Federal Government to intervene to support workforce capability, especially in thin markets.
- There are conflicting views about the need for ECEC staff to hold qualifications. The PC suggested a potential mismatch between the skills required by ECEC staff and those legislatively required, indicating a lack of evidence on the level of qualifications required by employees to effectively care for children.

Potential role of government

- There may be a role for the department to play in uplifting capability and supporting the sector to source professional development. Such professional development would need to be coordinated across state and territory governments.
- The department could play a role in enabling VET and Higher Education students to gain paid work experience in ECEC, providing incentive for staff to enter into the ECEC sector.

Opportunity 3.4 | Clarify the department's role in supporting the CCS workforce

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Levers



Information provision: By embedding workforce collections within the Market Monitoring Framework, the department is engaging in information sharing.



Integration: By actively working with ACECQA and guiding other actors as a workforce steward, the department is integrating the ECEC sector.



Policy and collaboration: Opportunity 1.3 involves the department changing its policy approach to be the defined steward of the CCS workforce.

Key stakeholders

- **The department:** will become the steward of the CCS workforce.
- **ACECQA:** would need to be thoroughly engaged with, given the role the agency has played in developing the National Workforce Strategy.
- **State and Territory Governments:** would need to be thoroughly engaged with given the various (and in some cases expanding) roles these departments are playing in workforce matters.
- **Providers:** may have information collected from them on their workforce and would be heavily impacted by any workforce reforms.
- **Workers:** may have information collected from them directly and will be a key stakeholder in the design of any workforce reforms.
- **Other government agencies:** may receive clarity on the role of the department as a steward of the CCS workforce, as well as their own role in ensuring a sustainable and capable workforce.

Next steps

- In recognising the importance of workforce and quality for the outcomes for children and families, the first step for the department is to develop a clear **policy position** on how to influence the quality and sustainability of the workforce.
- In seeking to inform this stewardship position, the department should develop a proposal for and extended **data collection**, which includes the scope and purpose of the additional collection, the methodology and the logistical implications for current interventions.
- Developing this position and approach to cost collection will require the department to identify the components of the National Workforce Strategy which they hold **accountability** for as a steward with respect to the CCS market.

Implementation considerations

Extent of change 	<ul style="list-style-type: none"> • Becoming the steward of the CCS workforce would represent a major change in the position of the department and would likely alter the relationship between the department, providers and workers.
Risk 	<ul style="list-style-type: none"> • The key risk of this Opportunity is that a lack of role clarity between the department and other stewards (e.g., ACECQA and state governments) results in confusion and effort duplication. This risk can be mitigated through engaging all involved parties directly and clearly communicating the new role of the department.
Potential cost 	<ul style="list-style-type: none"> • Becoming the steward of the CCS workforce would require a substantial investment from the department (e.g., monitoring the workforce, researching the market, develop workforce policy). However, such an investment could have enormous potential returns in ensuring that families can access affordable and sustainable high-quality care.
Specialist capabilities 	<ul style="list-style-type: none"> • Specialist survey provider • Strong understanding of the CCS workforce and its history • Consultation and ongoing communication with providers, workers and other partial stewards (e.g., ACECQA)
Policy contingencies 	<ul style="list-style-type: none"> • Workforce analysis conducted as a part of the ACCC Price Inquiry and PC Inquiry may frame the stewardship approach taken by the department.

4. Implement reforms to funding model design



Opportunity 4.1 | Redesign the Community Child Care Fund (CCCF)

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Overview

- Following a broader examination of the CCS (*Opportunity 3.1*), there is an opportunity to redesign the *Community Child Care Fund* (CCCF) scheme and the scope of the grants within the fund.
- This opportunity will need to consider findings from both the PC and ACCC inquiries, as well as the CCCFR review, which has also been commissioned.
- This opportunity would involve two components:

1. Develop an evidence base on the performance of the current CCCF arrangements

This evidence base would be used to:

- assess the performance of the current grants, to ascertain if they remain optimal instruments for undertaking thin market interventions to enable access and participation in rural and remote communities.
- consider the applicability and utility of a grants-based scheme, relative to alternatives (e.g. seed funding for capital expenditure)
- opportunities to improve the administrative efficiency of the program
- understand the current and intended outcomes derived from funding rounds including
 - the fulfilment of program objectives, including removing barriers to access and participation for families and children
 - delivery of commitments made by applicants in seeking funding, and
 - the sustainability of outcomes in communities (continuity).

2. Redesign the CCCF to ensure a clear purpose and scope relative to other components of the funding model

This redesign would:

- clarify the **purpose** of the CCCF, and reflect this in the funding model design through:
- establish clear **streams** (e.g. financial viability, inclusion, capital, workforce retention, and Indigenous block grants. Consider support of higher costs e.g. non-standard hours or children who require an educator with additional qualifications)
- confirm and clarify the **scope and boundaries** of the CCCF (for example, the extent to which the fund supports programmatic supports which might also be funded through the Inclusion Support Program funding)
- ensure the **sufficiency** of the program in meeting community need (number, volume of grants), and include funding guidelines to support innovative place-based models
- establish funding which ensures sufficient continuity and perpetuity and a clearer set of objectives with respect to sustainability over time.

Benefits

Redesigning the CCCF would support the department to:

- improve the efficiency and sustainability of the CCCF
- provide evidence to inform a broader investment framework on thin markets
- understand options to reduce long term reliance on the CCCF, and
- refine funding model design (and program guidelines) to reduce administrative burden.

Related opportunities

Within this Strategy

- This opportunity is proposed to follow a comprehensive *Review of the CCS* (*Opportunity 3.1*), which will develop an evidence base that can which is used to inform a redesign of the scheme.
- Designing a CCCF model which meets the need of users in different contexts should draw on the data collected in Phase 2 of this strategy, including
 - a strong understanding of CCS market dynamics (*Opportunity 2.1*)
 - the efficient costs of provision in different contexts (*Opportunity 2.2*), to ensure the new CCCF investment is sufficient relative to need.
 - monitoring child and family need in the CCS market (*opportunity 2.3*), to ensure that the CCCF scope covers the relevant needs of communities.
- More sophisticated market monitoring and co-management with the states, through *cross-government data linkages* (*opportunities 1.2, 2.4*) would also inform options to design a CF which consider the relevance of CCCF to different local settings.
- These opportunities will need to consider findings from the ACCC and PC Inquiries and the CCCF Review.

Outside this Strategy

- This opportunity could encompass or support existing plans for a CCCF review.
- The ACCC Price Inquiry will gather and analyse information about the cost of delivery in regional, remote and other higher-costs contexts. This information could be used to inform the design of the CCCF, especially prior to the establishment of an ongoing cost collection (*Opportunity 2.2*).

Opportunity 4.1 | Redesign the Community Child Care Fund (CCCF)

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Rationale

- There is uncertainty across the sector around the **scope and intended purpose** of certain grants within the Community Child Care Fund (CCCF).
- Consultations revealed that there has been **reduced participation** in *Disadvantaged and Vulnerable Communities Grant* and *Restricted Grant* programs, relative to previous funding models.
- It is also **unclear how the grants programs are calibrated**, given that the costs of delivering ECEC services are unknown. Evidence on the efficient costs of provision in different contexts (Opportunity 2.2) could be used to assess the efficiency and effectiveness the CCCF relate to need.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve

Accessibility

Affordability

Sustainability

By ensuring that families are:

1. Empowered

By supporting provision that is:

6. Financially viable

- Reviewing the performance of the CCCF against the ECEC objectives of affordability and accessibility will reveal how the program could be reformed to empower vulnerable communities. If implemented, these reforms would likely make ECEC care cheaper and more convenient for First Nation families and those living in regional and rural Australia (Precondition 1: Empowered families).
- Aligning the CCCF to the needs of disadvantaged communities would ensure that the providers who service these communities receive sufficient funding to provide tailored care and operate with financial viability (Precondition 6: Financially viable providers)

Consultation findings

Access to the CCCF

- There is **uncertainty** as to **whether grant funding is sufficient** to support families in regional and remote communities or to ensure culturally-appropriate care.
- Providers reported that **engaging with the CCCF was burdensome** and complicated, hindering access to grants.
- There is **limited visibility over the number of CCCF grant requests** received, reducing the capacity of jurisdictions to understand need and opportunities for intervention. It was noted the grants are limited in that they are only provided in “rounds.”

Calibrating the CCCF and its delivery models

- It is unclear to system stakeholders how the program is calibrated, given the **costs of delivery are unknown**. Embedding into the funding model concepts of relative need and relative cost across different delivery settings would reduce the extent to which the fundings are subject to discretion.
- Providers suggested **alternative approaches** to the grant model, including:
 - additional ‘loadings’ within the CCS to support provision in higher-cost contexts, and
 - allocating CCS and CCCF funding directly to providers in a supply-side funding model.
- Alternative approaches to the grant model will come following the ACCC Price Inquiry and PC Inquiry and the CCCF Review findings.

Scope and purpose of the CCCF

- Consultees within the department discussed their role in **administering the CCCF as a safety net** to support vulnerable and disadvantaged communities across Australia. They noted an increasing pressure to not only provide funds to support the workforce but also with accommodation and housing. They raised the question of how much the department should intervene in supporting workforces in thin markets.
- ACECQA consultees noted they are now **working outside of their “scope”** by supporting the Department of Education with the CCCF. Their focus is to improve the safety and quality standards for children.

Opportunity 4.1 | Redesign the Community Child Care Fund (CCCF)

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Levers



Funding: This opportunity represents funding reform to the scope and potentially volume of investment made through the CCCF. This may have implications for other components of the funding model where there is overlap.



Policy and coordination: Policy changes may be required to redesign the CCCF, and the redesign should be informed by policy direction at a federal level, such as the priorities of the Early Years Strategy.

Key stakeholders

- **The department:** will be responsible for a redesign of the CCCF, including determining the scope, purpose and implementation of a new CCCF in consultation with other actors.
- **Families and providers:** from regional and remote Australia will be a key stakeholder in a CCCF review and redesign, and should be central to consultations to inform a new approach to implementing the scheme.
- **Other government agencies:** may be consulted by the department throughout the Review and will develop an understanding of the department's role as a steward in the CCS market as a result of its leadership in CCCF reforms.

Next steps

With reference to the two components of this opportunity, the initial steps to implementation are:

1. **Develop an evidence base on the performance of the current CCCF arrangements**
 - Compile and examine past and current reviews of the components of and grants within the CCCF
 - Consult with provider and family stakeholders in markets which the CCCF supports – such as in regional and remote communities, and in non-standard delivery settings.
2. **Redesign the CCCF to ensure a clear purpose and scope relative to other components of the funding model**
 - Define a clear scope and terms of reference for a redesign to the funding model, including
 - the defined objectives of the CCCF scheme which the redesign will seek to achieve
 - the settings which may be subject to change, such as scope of grants, eligibility, volume, funding allocation process
 - a clear perspective on the potential role of the Commonwealth in relation to management of thin markets and the remit of the department as a steward.

Implementation considerations

Extent of change 	The impact of a redesign of the CCCF would depend on the exact scope of the changes, which may relate to the volume, focus areas, eligibility criteria and funding levels of the grants, and which may be substantial.
Risk 	Key risk include an unclear terms of reference and a lack of consultation with key groups (e.g., First Nations families, Remote and regional residents) which may limit the effectiveness of a model redesign. These risks can be mitigated through developing an extensive review plan, consulting a diverse sample of the ECEC sector and ensuring those responsible for the funding model redesign hold requisite knowledge of the ECEC sector and its history.
Potential cost 	The impact of a redesign of the CCCF on the level of Australian Government investment would depend on the exact scope of the changes, which may relate to the volume, focus areas, eligibility criteria and funding levels of the grants, and which may be substantial.
Specialist capabilities 	<ul style="list-style-type: none"> • Intricate knowledge of the CCCF and its history • External stakeholder consultation and coordination • Research, policy analysis and funding model design
Policy contingencies 	A range of other policy opportunities proposed in the Strategy would ideally precede this redesign (see previous page), to ensure it is based on the best available evidence. The PC Inquiry and ACCC Price Inquiry and the Early Years Strategy may influence the direction of the broader CCS review and therefore, the CCCF design.

Opportunity 4.2 | Adjust CCS settings to support integrated services and place-based delivery models

Overview

There is an opportunity to adjust CCS settings to incentivise the use of integrated services and place-based delivery models. While developing these solutions relies on collaboration across government agencies, there is an opportunity for the department to adjust CCS settings to fund public service providers to design and deliver services which support a breadth of family needs at once (including health, housing, education, and disability, rather than in isolation) and which respond to local context. Acting on this opportunity would involve:

1. Establishing a clear mechanism for collaboration between the Australian and state and territory governments to develop place-based and integrated solutions

This includes collaborating with States and other agencies (ACECQA, Department of Social Services, Department of Health, the NDIA), to confirm:

- **The position of the department:** including recognising that CCS funding can play a material role in supporting provider viability, but is equally only one lever within a suite of contributions required to inform a place-based or integrated service model of delivery.
- **The conditions for the department's intervention:** identify market conditions in which government interventions may be best developed and/or led by jurisdictions to ensure targeted support to communities, including through place-based solutions.
- **The levers held by the department:** clarify the scope and purpose of funding provided by the department as part of the CCCF or other programmatic models to support delivery in thin markets, and the non-funding levers within the remit of the department (e.g. through changes to the CCS eligibility criteria to enable flexibility in provision).
- **The issues which the department (as opposed to States or other actors) lead:** reflect, for consistency and coherence, the issues which the department seeks to guide its stewardship interventions around (e.g. workforce).

2. Making the requisite changes to the CCS funding model to enable integrated solutions

The specific adjustments to the funding model which are required to better incentivise place-based and integrated solutions will be informed by the collaborative process described above, and will also be informed by the CCS Review (Opportunity 3.1). These adjustments might include

- Developing **new care types** which are funded in collaboration with other agencies
- Adjusting **eligibility criteria** for CCS providers and/or families in thin markets, to ensure the requirements of receiving the CCS do not preclude engagement with innovative delivery models, and that intersections with other services (e.g. NDIS) are accounted for.
- Adjusting the **levels of funding** provided to integrated service models through the CCS and CCCF

to account for varying costs of delivery relative to standard models.

Benefits

Collaboration on place-based market interventions enables:

- Improved **clarity** over the role of the Commonwealth Government compared to State and Territory Governments
- Greater **efficiency** (e.g., double-up between federal and state governments)
- **Effective government intervention** in thin markets, informed by local need and context

Related opportunities

Within this Strategy

Opportunities in Phase 1 and 2 of this strategy focus on developing the data and frameworks to ensure market shaping is cognisant of local context. These include:

- understanding how different levels of government intervene, through the Strategy's market intervention approach (Opportunity 1.1) via a further investment framework that uses thin/failing market signalling and identified preconditions for non-market interventions.
- collating sufficient information to identify thin markets, through a strong understanding of CCS market dynamics (Opportunity 2.1) and a supply and demand model for the CCS market (Opportunity 2.4).
- establishing the evidence to inform interventions, including understanding the relative costs of provision in different contexts (Opportunity 2.2) and child and family need in the CCS market (Opportunity 2.3)

Further, developing a consistent approach to collaborating on place-based market interventions would also be informed by

- the findings from a review of the CCS (Opportunity 3.1)
- the findings from a review of supports for children with disability (Opportunity 3.3)
- the updated scope of the CCCF (Opportunity 4.1)

Outside this Strategy

This opportunity could encompass or support parallel projects including:

- State and territory government policies (e.g., additional funding of universal pre-kindergarten in NSW)
- Early Years Strategy
- Introduction of a 90% subsidy under the CCS

Opportunity 4.2 | Adjust CCS settings to support integrated services and place-based delivery models

Rationale

- There is increasing focus on the benefits of coordination across government to support child development and family welfare holistically, at a community level. ECEC service provision can play a key role in connecting families to other public services, especially where integrated service models co-locate ECEC with other services (e.g. health clinics).
- These integrated services – or ‘one stop shops’ for families – are often valued community centres in rural and regional locations, and in First Nations communities, and offer a solution to provider viability challenges in these thin markets, given the economies of co-location. These solutions can also be tailored to the need of specific groups, such as through the integration of language support for CALD and/or migrant families, or linking in with local Indigenous Community Controlled Health organisations in First Nations communities to increase accessibility for community members.
- While there is a strong case for these more innovative delivery models, CCS eligibility criteria and care types can hinder providers’ ability to offer more flexible delivery models. There is also a need for greater collaboration with local governments to ensure solutions which are funded respond to local need and context – such as through the provision of culturally suitable care options.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve

Accessibility

Connectedness

Sustainability

By ensuring that families are:

3. Supported

By supporting provision that is:

5. Financially viable

- Adjusting the CCS criteria to provide sufficient incentives for providers to develop local solutions will ensure care models are more aligned to local need, reducing the non-economic costs of care for families (Objective 3: Supported families).
- Encourage providers to deliver more innovative service options means ensuring that it is financially viable for providers to do so and that there are no barriers in the CCS that disincentivise competition (Objective 5: Financially viable).

Key consultation findings

Integrated service delivery

- The department should work to define data sharing responsibilities across governments, particularly in light of the government’s *Early Years Strategy*. This will enable all actors to work together to develop data-driven solutions to market failure.
- There is an opportunity for the department to facilitate greater collaboration with other government partners (e.g. NDIS) to achieve intended policy outcomes that contribute to system objectives. The needs of families can be more holistically met if policy is designed to consider all aspects of health, housing, education and disability at the same time.
- The National Indigenous Australians Agency, Department of Social Services, and the Department of Health were recommended as agencies that could collaborate with each other to deliver connected services that recognise community, priorities cultural differences, and consider the needs of those vulnerable and disadvantaged.

Place-based market solutions

- The department should work more collaboratively with First Nations communities to develop and deliver the culturally appropriate support and services needed for families to be comfortable in accessing community-specific and place-based education and care.
- There is an increasing focus on child development and connectedness as an outcome for ECEC. This means taking a holistic and collaborative approach across government to enable community-specific and place-based delivery, connecting the local community and recognising their priorities. Such collaboration and co-design is an opportunity to reduce scepticism towards the department in First Nations communities that otherwise face barriers to access.

Co-developing interventions with States

- Commonwealth Government stewardship requires collaboration with state and territory governments.
- There is a lack of clarity about the ideal market interventions in different settings, including in defining the options beyond programmatic funding that might be used to intervene in non-viable markets.
- Beyond funding, there needs to be a broader set of tools used to address problems in thin markets. These tools could include flexible care, coordinated services and workforce interventions.

Opportunity 4.2 | Adjust CCS settings to support integrated services and place-based delivery models Page 122

Levers



Funding: This opportunity represents funding reform to the scope and potentially volume of investment made through the CCS to support place-based solutions.



Policy and coordination: Policy changes may be required to ensure that there is flexibility in the CCS to support place-based and/or integrated service delivery modes, and the redesign should be informed by policy direction at a federal level, such as the priorities of the Early Years Strategy.

Key stakeholders

- **The department:** would oversee the adjustments to the CCS, and, as a steward over this market, lead collaboration with other agencies to co-develop solutions at a local level.
- **State and territory governments:** will provide key inputs to support the department's adjustments, and would be expected to make additional investments at the local level to complement the CCS adjustments to ensure place based solutions are operationally and financially viable.
- **Families:** in thin markets will be the main group affected by the availability of these integrated and place-based delivery options, with respect to ECEC and other public services which might be delivered in parallel.
- **Providers:** particularly those that deliver in thin markets (e.g., regional areas, First Nations communities and specialised disability care), will be affected by policies which adjust the incentives to deliver place-based solutions.
- **Other government agencies:** will be necessary to involve in consultation and co-design to ensure that changes to the CCS enable services to be delivered alongside ECEC as part of place-based or integrated delivery models.

Next steps

1. Identify the necessary adjustments to the CCS to enable these models

Define a clear scope and terms of reference for making changes to the CCS, including confirming

- The context in which CCS changes can be expected to incentivise the delivery of place-based solutions (and contexts in which additional interventions, such as programmatic funding, is required).
- The settings which may be subject to change, such as scope of funding, eligibility criteria for provider and families, subsidy levels, and funding allocation processes.

Implementation considerations

Extent of change 	Adjusting the CCS settings to support integrated services and place-based delivery models would represent a substantial change to the approach and position of the department. It would significantly alter the how the department works with state and territory governments.
Risk 	The risk associated with adjusting CCS setting are high. If the department and state governments do not collaborate effectively to support integrated services and place-based delivery, it could lead to market failure. To mediate this risk, the department should engage in intricate collaboration with each state and territory government.
Potential cost 	The exact cost of implementing this opportunity depends on the specific adjustments made to the CCS. However, it is expected that supporting integrated services and place-based delivery will require more funding than is currently invested. There will also be additional costs required to facilitate these changes and communicate their implications to providers.
Specialist capabilities 	The specialist capabilities required will depend on the particular issue that is being addressed. Primarily, this opportunity is focused on determining <i>who</i> has the capabilities and authority (e.g., control over the relevant levers) to deliver a solution to the specific issues in a given thin market, noting that this might be the department, state and territory governments or ACECQA.
Policy contingencies 	This opportunity will be informed by the reviews proposed in the Strategy, including Opportunity 3.1 Review the CCS and Opportunity 4.1 Resign the CCCF. The Early Years Strategy has objectives related to connecting service delivery, so this may also inform adjustments to CCS settings.

5. An evolution in the scope and purpose of the CCS



Opportunity 5.1 | Research options to adopt a more holistic approach to defining, measuring and funding for 'quality'

Overview

There is an opportunity to consider adopting a more holistic approach to defining, measuring and funding quality in the ECEC sector, to recognise the role of the sector in early childhood development. Three dimensions might be considered in a scoping study of options:

1. A broader definition of quality:

Such a definition would extend the current focus of quality framework (which focus on child safety) to consider the role of the sector in supporting children's emotional, social and educational success, and cover all subsidised care. This definition might also consider quality with a lens of cultural suitability in different contexts, such as in CALD or Indigenous communities.

Taking action to establish this updated definition would constitute a change in the framing of the sector's purpose to families, providers and the public, and signal that the department's investment in the CCS market intends to achieve dual outcomes of care for children, and their educational and social development.

2. Reforms to enable measures of continuous quality improvement

Adopting a broader definition of quality would require an investment in a complementary set of measures than those used to frame the NQF, which consider quality in the context of qualifications, ratios, pedagogy and practice. A change in the scope of quality definitions and measures would necessitate a these assessment approaches, which are input and activities focused – to metrics which are outcomes-focused and recognise continuous quality improvement over time.

Establishing such metrics would likely necessitate an increased frequency of the NQS rating system to allow for gradual improvements to be recorded.

3. Support the capacity of the NQS rating system

Support the efficacy of the NQS rating system by resuming funding to State Regulatory Authorities to support quality assessment and rating alongside ACECQA.

3. Options to link CCS receipt to quality levels

This might involve establishing an outcomes-based performance framework, which is incorporated into the expectations of receipt of and provision under Family Assistance Law, to ensure that eligibility for funding is reconsidered where there is evidence that eligible providers are consistently not meeting quality expectations.

Research questions

Implementing this opportunity would primarily involve undertaking research to establish a more sophisticated approach to framing 'quality' in early childhood, and its many components. This includes:

- identifying the **intended development outcomes** from providing ECEC, such as child wellbeing, engagement and achievement
- considering **how to measure** these outcomes at a service provider level,
- understanding how **the sector currently assesses**, monitors, reviews and supports the achievement of these quality outcomes.
- **establishing role clarity** on each agencies' responsibility for quality monitoring and improvement.
- **collecting and publishing data** on outcome-based measures of quality of provision, as a parallel or complementary measure of quality, alongside NQS ratings.

Benefits

Adopting a more holistic approach to defining and measuring quality enables:

- increased clarity on how the **CCS supports educational outcomes** for children. This, in turn, promotes **role clarity for the department** as a steward over these outcomes.
- greater awareness of the childhood development and **educational purpose of the sector**, rather than an exclusive focus on parental workforce participation
- the sector to become more **accessible through consistent naming conventions**, and
- improved understanding of the **NQF as a lever for reform**.

Related opportunities

Within this Strategy

Other opportunities in this Strategy will inform the consideration of a more holistic approach to quality. These opportunities include:

- Opportunity 3.2 | Adopt new nomenclature for the CCS
- Opportunity 3.4 | Clarify the department's role in supporting the CCS workforce
- Opportunity 5.1 | Research options to adopt a more holistic approach to defining, measuring and funding quality

Outside this Strategy

- Implementing this opportunity will involve recognising the existing mechanisms in place to support quality educational outcomes for children and their families, through regulations including the National Quality Framework and Early Years' Learning Framework.
- While some measures of outcome exist – such as those reported through the Australian Early Development Census (AEDC) and could be leveraged to inform this opportunity – these outcomes are not reported at a child level in a way which could inform an outcomes-based performance model.
- The Commonwealth Early Years Strategy, may inform the approaches used to define and measure quality.

Opportunity 5.1 | Research options to adopt a more holistic approach to defining, measuring and funding for 'quality'

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Rationale

- A key condition for successful stewardship is that the **roles, responsibilities and boundaries** of each actor within the system are clearly defined.
- However, within the ECEC sector, there is **uncertainty** around the division of roles and responsibilities between the Federal Government, ACECQA, state and territory governments and regulatory agencies.
- On issues of quality, this role uncertainty is often attributed to an **unclear or inconsistent language around 'quality'** in the sector. More specifically, system actors do not share a consistent definition of quality, which hinders attempts to collaborate on improving quality outcomes across the sector.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:

Quality

Connectedness

Sustainability

By ensuring that families are:

2. Informed

3. Supported

By supporting provision that is:

6. Competitive

7. Accountable

- If the quality is well-defined and effectively measured, then families will have the information needed to compare services based on quality and make informed choices (Precondition 2: Informed families).
- A holistic approach to quality will increase focus on childhood development outcomes, improving the suitability and standard of ECEC offered to families (Precondition 3: Supported families).
- A clear definition and measurement of quality will encourage providers to compete on quality in an effort to attract families (Precondition 6: Competitive providers).
- By adopting a holistic approach to quality, compliant providers who are delivering low-quality care (e.g., care that doesn't improve childhood development outcomes) will be held to account (Precondition 7: Accountable providers).

Consultation findings

Defining 'quality' as distinct from compliance, and implications for stewardship

- Quality is defined inconsistently across different actors in ECEC. Historically, quality has been defined narrowly as relating to 'compliance' and 'regulatory' activity. As a result, ACECQA has been viewed as the steward of quality, monitoring compliance in the market. Today, all consultees agree that compliance is only one element of quality.
- The definition of quality should be expanded beyond compliance to focus on measures of inclusion, equity and childhood development. For example, quality would include leadership, education programs and partnerships, rather than just staffing ratios.

Provider responsibility for quality

- There is an opportunity for funding to be used as a lever for quality standards, ensuring that ECEC meets the needs of all cohorts of children across Australia (e.g., vulnerable and disadvantaged).
- There needs to be incentives for services to establish themselves in areas of undersupply. However, these services have to be suitable and of sufficient quality to meet the needs of local communities.
- ECA noted that measurable outcomes should be flexible and aligned to the local community. For example, in areas of undersupply, the outcomes measured should focus on improving access.

Quality ratings and frequency

- In a market with high workforce turnover, the assessment of ECEC services against the NQS is not conducted frequently enough. As a result, service ratings are often out-of-date and unreliable. NQS visitations should be done more frequently, reflecting how quickly services can improve or worsen (e.g., change of service director).
- If a service is consistently rated 'working towards', there should be consequences. The focus should be on tracking a services' improvement.
- Today, there is a financial disincentive to delivering high quality services and servicing children with additional needs (e.g., children with a disability, First Nations children). As delivering high-quality services is costly (e.g., professional development, wrap around supports), there should be direct government incentives.

Government responsibility for quality

- More information about providers and services could be included in the NQF assessment, enabling families to understand how a service supports vulnerable cohorts.
- The department noted that to make policy decisions around quality based on consumer behaviour, rather than provider preferences, it would need more information about families preferences for different care types and how they view quality.

Opportunity 5.1 | Research options to adopt a more holistic approach to defining, measuring and funding for 'quality'

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Levers



Information: Researching holistic approaches to defining and measuring quality is primarily an information gathering exercise. If adopted, the approach would primarily use information to support improvements in childhood development outcomes.



Policy and coordination: Adopting a holistic approach to quality would signal a substantive change in the department's policy position and require collaboration with ACECQA over how quality is measured.

Key stakeholders

- **The department:** As a steward over educational outcomes in the ECEC sector, the department will be responsible for researching and possibly designing a more holistic approach to defining and measuring quality.
- **Families:** may perceive the sector differently following the adoption of a more holistic view of quality. They may place additional focus on the role of the sector in supporting educational outcomes.
- **Providers:** may be incentivised to more strongly articulate their contributions to early development outcomes. Some providers may also hold concerns for the implications of this change for award wages and financial viability.
- **ACECQA:** Where the department takes a more active role in supporting quality, it will be important to work with ACECQA to clarify roles and responsibilities. The department will also need to collaborate on the purpose of its holistic measures of quality, which sit alongside the NQF.

Next steps

Reviewing the relative benefits and limitations of existing ideas and examples from other countries that drive quality

- Expanding CCS proposed legislation to include providers to share information on quality
- Scoping a small pilot project that aligns funding to quality and evaluate outcomes

Implementation considerations

Extent of change 	<p>Undertaking the research into how quality can be measured would not necessitate a change in the sector's approach. The impact of considering a more holistic approach to quality would depend entirely on the adoption of the approach. If the department and other agencies move to begin defining, monitoring and measuring quality in new ways, this objective would have a substantive impact on the sector.</p>
Risk 	<p>The key risk associated with researching a more holistic approach to defining and measuring quality is a lack of available evidence or access to the right information. To mitigate this risk, the department should research widely and seek to identify the best practice international approaches.</p>
Potential cost 	<p>While the cost to changing the language around quality itself is small, the implication of this change is that new ways of measuring and intervening to support quality need to be developed. Substantive investment may be required to create an effective methodology for measuring quality in relation to broader metrics, such as childhood development outcomes.</p>
Specialist capabilities 	<ul style="list-style-type: none"> • Strong understanding of current quality measures and the NQS • Specialist knowledge in early childhood development
Policy contingencies 	<p>If actors adopt a more holistic approach to defining and measuring quality (e.g., measuring quality using an outcome framework), there would be substantive policy implications for the NQF and the CCS. A transition to an outcomes-based framework could affect the scope of the CCS, ensuring there is sufficient funding accountability.</p>

Opportunity 5.2 | Develop an approach to supply-side funding

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Overview

At a time when the CCS is increasing and state governments are providing funding to enable universal access, there is an opportunity for the department to contemplate a system which directly funds ECEC places. To consider moving away from a subsidy model, a scoping study to assess the potential to use supply-side funding would include 4 main steps:

1. Monitor the impacts of changing subsidy settings

Undertake research, leveraging available Productivity Commission outputs, to understand –

- the marginal rate of return from investment into the CCS as the subsidy is increased (that is, assesses whether raising the CCS rate leads to an equivalent increase in quality, affordability and access. The ACCC Price Inquiry will be looking at changes in pricing and fees as a result of CCS changes)
- whether increasing the subsidy removes barriers to participation, particularly for disadvantaged children.
- the distributional and equity impacts of increasing the subsidy (that is, identifying which groups are the primary beneficiaries of this increase), and
- the overall impact of the CCS changes brought in through the *Cheaper Child Care Act* and any outcomes achieved, including the supply of services in the community.

2. Identify alternative funding models

Investigate the potential to fund supply-side delivery through a range of different models, including:

- a funding floor with additional investments based on enrolment count
- block funding, and/or
- additional funding through a loadings scheme to support higher-needs cohorts.

3. Design and pilot a series of supply-side funded delivery models

Implement a small-scale pilot program to fund provision in thin markets (e.g., ECEC for children with complex disabilities or in remote Australia). Conduct multiple pilots across different locations (e.g., metropolitan communities, as well as regional and rural areas) and in a range of markets where current CCS settings are perceived as both effective and ineffective. These pilots may leverage or learn from the placed-based examples supported through *Opportunity 4.2: Adjust CCS settings to support integrated services and place-based delivery models*.

4. Evaluate pilots relative to the CCS approach

Evaluate the marginal benefits of the pilots relative to the broadened CCS. This would involve testing market scenarios against wider ECEC objectives to determine the impact of diverse ownership models, price caps and profit margins.

Benefits

Monitoring and evaluating the potential to use supply-side funding will enable:

- a greater understanding of the **return to investments in the CCS** for different family and children types
- improved understanding – in theory and practice – of the **potential of supply-side funding** in ECEC markets, and
- increased ability to **close gaps in thin markets** through innovative projects, which enable the use of place-based and integrated solutions.

Related opportunities

Within this Strategy

- The findings from this evaluation are likely to connect to other components of the ECEC funding model including a Review the CCS (Opportunity 3.1), Review the CCCF (Opportunity 4.1), and a Review of the supports for children with disability (Opportunity 3.3).
- This evaluation relates strongly to place-based and integrated delivery and, as a result, should be informed by learnings from Opportunity 4.2, to adjust CCS settings to support integrated services and placed-based delivery models.
- This evaluation could also provide an evidence base with which to consider the purpose and scope of the CCS, as well as the objectives of funding. As a result, it could inform the approach to Opportunity 5.1, to research options to adopt a more holistic approach to defining, measuring and funding quality.

Outside this Strategy

The Productivity Commission inquiry into Australia's ECEC system commenced on 1 March 2023. The PC is expected to comprehensively review ECEC settings through the inquiry. A draft report is expected in November 2023, with a final report by 30 June 2024. Findings from the PC inquiry may inform the department's evaluation of the potential to use supply-side funding. Specifically, the PC inquiry may offer insights into the marginal rate of return from investment in the CCS should the PC recommend a universal 90% child care subsidy rate.

The recently announced Early Years Strategy will be developed with an aim to create a new integrated, holistic, whole-of-government approach to ensure children aged five years and below have the best start at life in their critical early years of development. The strategy positions ECEC within the broader policy objectives of early childhood development, which may strengthen the impetus for a supply-side funding model which ensures the sufficiency of funding relative to the intended educational outcomes, rather than solely as an incentive to support parents' workforce participation.

Opportunity 5.2 | Develop an approach to supply-side funding

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Rational

- There is consistent tension on the balance between funding supply or demand side measures. The parental subsidy scheme of the CCS is a demand side funding measure. Supply side measures include funding places or hours of care.
- Using a supply-side funding mechanism (i.e., funding services directly) has the potential to widen accessibility for families and align ECEC provision with educational outcomes and quality measures.

Enabling the system objectives and market preconditions

This opportunity supports the system to achieve:

Accessibility	Affordability	Quality	Connectedness	Sustainability
---------------	---------------	---------	---------------	----------------

By ensuring that families are:

1. Empowered	2. Informed	3. Supported
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By supporting provision that is:

4. Operationally viable	5. Financially viable	6. Competitive	7. Accountable
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- Introducing a supply-side funding model which considers performance against the defined outcomes and objectives of the system is expected to have an impact across the suite of market 'preconditions.' However, whether the supply-side funding model is actually introduced depends on the findings from the proposed evaluation of pilot schemes.
- To support **families**, funding model would seek to increase the alignment between the services provided and the needs of families. Such improvements may
 - lower costs for families, by supporting a more consistent approach to setting parents' fees (Precondition 1: Empowered)
 - increase the clarity of the choices families' face (Precondition 2: Informed), and
 - improve the suitability of care in terms of volume and flexibility (Precondition 3: Supported)
- Implementing an effective supply-side funding model would ensure that **providers**
 - receive sufficient funding to operate with financial and operational viability (preconditions 4, 5)
 - face sufficient incentives in terms of funding and eligibility to enable sustainability (precondition 6), and
 - are held accountable to deliver the services they are funded for (precondition 7).

Key consultation findings

Comparisons to school funding

- A supply-side funding model would align ECEC funding to school funding, whereby the government funds the organisations that deliver education directly. Some consultees noted that this could strengthen perceptions of the sector as supporting educational and development outcomes for children.

Prices and accessibility

- The CCS does not maintain downward pressure on prices as service providers are able to freely increase their fees. Funding may be more effective if it was provided directly to services, particularly as the government potentially moves to a 90% subsidy.
- There are data gaps regarding the cost of delivery, including the cost to provide universal ECEC. One consultee proposed that the current cost to the Australian government of funding the CCS (\$11 billion) combined with current levels of investment from families could represent a sufficient total investment to achieve universal access, if calibrated in a different way.

Current challenges in the CCS

- Previous increases to the rate of CCS have been met by some providers proportionally increasing their fees. A supply side funding model would mitigate this risk by restricting the ability of providers to raise fees excessively.
- Providers receive funding based on the quantity of children they service. As a result, the CCS incentivises large-scale delivery rather than quality or specialised needs including inclusion support, access or non-standard hours care, which is under the remit of ACECQA.
- There are few incentives for providers in thin markets leaving a gap in provision for often vulnerable communities. Some governments use supply side funding to ensure provision in these markets.

Opportunity 5.2 | Develop an approach to supply-side funding

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Levers



Funding: By evaluating and, possibly, introducing a supply-side funding model, the department is engaging in funding reform.



Integration: When evaluating the potential to use supply-side funding, there may be opportunities to integrate processes with other agencies that provide additive or complementary funding to the CCS.



Regulation: Regulatory changes may be required to introduce supply-side funding in response to the evaluation.



Policy and coordination: Policy changes may be required to implement a supply-side funding model in response to evaluation findings.

Key stakeholders

- **The department:** will oversee the monitoring and evaluation of the potential to use supply-side funding, determining the terms of reference in consultation with other actors.
- **Families:** will be a key stakeholder in the funding evaluation and should be central to consultation. They may be heavily impacted by any funding reforms.
- **Providers:** will be another key stakeholder in the funding evaluation and may also be heavily impacted by any funding reforms.
- **Other government agencies:** may be consulted by the department throughout the evaluation and will develop an understanding of the department's role as a steward in the sector.

Next steps

Develop a clear **terms of reference** for the evaluation, including

- defining the current and potential future objectives of funding the ECEC system which the Review might consider (e.g. equity, connectedness)
- identifying the parallel policy reforms which the Review should (or should not) consider (e.g. Early Years Strategy)
- the scope of the funding settings which are to be considered
- a clear perspective on the potential role of the Commonwealth in relation to management of the ECEC system and the remit of the Department as a steward.

Implementation considerations

Extent of change 	<p>Undertaking an evaluation of supply-side funding itself would not necessitate a change in how ECEC is funded. The impact of this evaluation would depend entirely on its findings. If substantial changes are suggested by the evaluation, it could have a large effect on the ECEC sector.</p>
Risk 	<p>The key risks of conducting an evaluation of the potential to use supply-side funding are an unclear terms of reference, a lack of consultation with key groups and ineffective outputs. These risks can be mitigated through developing an extensive review plan, consulting a diverse sample of the ECEC sector and hiring experienced policy analysts with a wealth of ECEC knowledge.</p>
Potential cost 	<p>The costs of implementing an evaluation of supply-side funding are relatively low. While a review will require a substantial time investment from skilled policy analysts with a intricate knowledge of the funding systems, it does not depend on large amounts of infrastructure or funding.</p>
Specialist capabilities 	<ul style="list-style-type: none"> • Intricate knowledge of funding models and their history • External stakeholder consultation and coordination • Research and policy analysis
Policy contingencies 	<p>The findings of the PC Inquiry can be used to inform the Department's evaluation of supply-side funding models, offering insights into the marginal rate of return from investment in the CCS as the subsidy is increased to 90%. The Early Years strategy may strengthen the impetus to consider universal access, where it is understood to better enable the education outcomes sought through ECEC provision.</p>



Australian Government
Department of Education

ECEC Market Strategy

Supporting documents





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The document must be attributed as the (ECEC Market Strategy Supporting Documents).

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How to use this document

This document provides a series of detailed Appendices to the ECEC Market Strategy. The document is not required reading to understand the core components of the Strategy but is instead intended to provide an additional reference to help readers understand the various data sources and supporting research that has been gathered and completed to help inform the Strategy. This document is not intended to be read sequentially, with each component containing discrete analysis and being used in a different way. Specifically:

- **Appendix A** presents findings from a targeted review of the key issues facing the sector, to contextualise the landscape in which the Strategy and subsequent opportunities have been developed. This Appendix has informed elements of the current state analysis in Chapter 2 of the Strategy. This analysis has also informed the rationale for many of the opportunities identified in Chapter 5, including those relating to workforce capacity, accessibility and suitability of care, and solutions to improve the connectedness and coherence of the sector.
- **Appendix B** provides a high-level overview of the key actors involved in the ECEC system. The content provides the basis for the system map included in Chapter 2 of the Strategy and the detailed functions analysis included in Chapter 4. This system mapping is used to identify the stakeholders affected by the policy opportunities proposed in Chapter 5.
- **Appendix C** provides a detailed overview of the functions of each branch within the department. This has been used to help inform Chapter 4 of the Strategy, noting that this represents findings from evidence available at a point in time, and will require updates as the Department evolves. This analysis contributes to the 'accountability' or 'functional mapping' which is presented in Chapter 4 of the Strategy.
- **Appendix D** provides a detailed literature review of the concepts of system and market stewardship, including how they are defined, the key components and functions of stewards, the advantages and limitations of stewardship approaches, how a stewardship approach can be implemented and an overview of the alternative approaches that can be adopted. This Appendix has been used to help inform the commentary on stewardship in Chapter 1 of the Strategy and to conceptualise the opportunities for stewardship which are presented in Chapter 5.
- **Appendix E** presents international examples of different approaches to ECEC market management, which provide a point of comparison to Australia's market approach and performance. These comparisons provide one input into the development of the opportunities presented in Chapter 5 of the Strategy. There are four dimensions explored in detail: funding model design, market regulation, expenditure, and administration.
- **Appendix F** provides a series of case studies on domestic and international examples of stewardship approached to market management. The Australian examples relate to public service markets that are similar to ECEC, including the NDIS, aged care and Vocational Education and Training (VET) systems. International examples examine the ECEC markets in New Zealand, Canada, and the UK. These case studies aim to identify key enablers and barriers to successful stewardship and draw out implications that may be relevant to the department. In doing so, the Appendix provides an input into Chapter 4 of the Strategy.
- **Appendix G** provides additional detailed information on how the objectives and pre-conditions included in the market schematic are defined. In addition, it provides a preliminary overview of how each of the pre-conditions could be measured. The Appendix supplements the information included in Chapter 2 of the Strategy. Chapter 5 also described the opportunities with respect to these market goals.

In addition to these appendices, a separate detailed report of consultation findings has been delivered to the department.



Appendix A: The current

This Appendix presents findings from a targeted review of the key issues facing the sector, to contextualise the landscape in which the Strategy and subsequent opportunities have been developed. This Appendix provides a more detailed version of the data sources and research that underpins the key insights included in Chapter 3 of the Strategy.

1.1 Access to and participation in ECEC

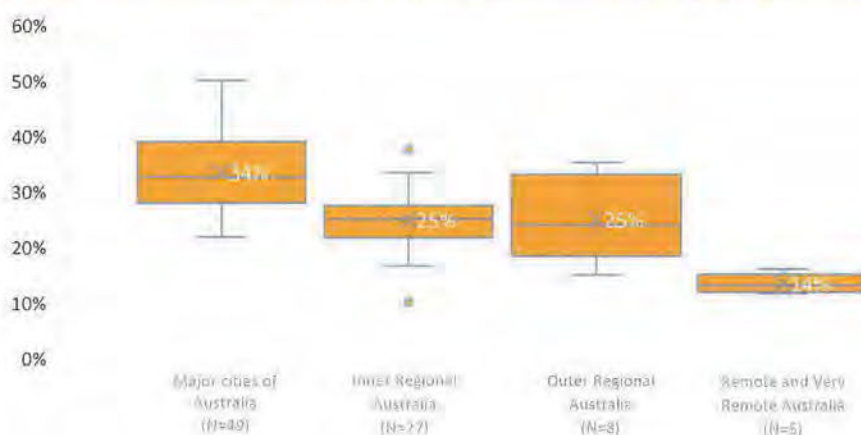
The ECEC system continues to be challenged in ensuring that remote and/or lower socioeconomic areas have access to and can participate in high quality services. This can lead to persistent service gaps or ‘thin markets’ in these communities where there is an unmet need for high quality early education services to support equitable access for vulnerable children and families.¹

Analysis of CCS data suggests that the proportion of children attending ECEC services is typically higher in more metropolitan, high socio-economic status areas (Chart 1.1 and Chart 1.2). These trends are generally consistent across different care types, suggesting that the flexibility afforded by different delivery models (e.g., FDC or IHC) may not be sufficient to overcome these barriers to participation. Given the substantial and widespread benefits associated with receiving high-quality early childhood education, these disparities create a risk that existing inequities could become entrenched at a very young age.²

It is likely that this analysis understates certain barriers to accessibility. For example, remote SA4s typically have lower population densities, meaning that families may have to travel extended distances to access services. Further, this analysis is based off the maximum level of attendance in a given service in a quarter, meaning that average attendance levels are likely lower than the percentages presented below.

Note that data limitations also prevent robust analysis on how this accessibility varies across different cohorts (e.g., Indigenous or Culturally and Linguistically Diverse families), as these fields are only optional in the CCS system, and hence understate the level of usage by these communities.

Chart 1.1 Variation in the proportion of the 0-13 year old population attending ECEC services across SA4s by ARIA+



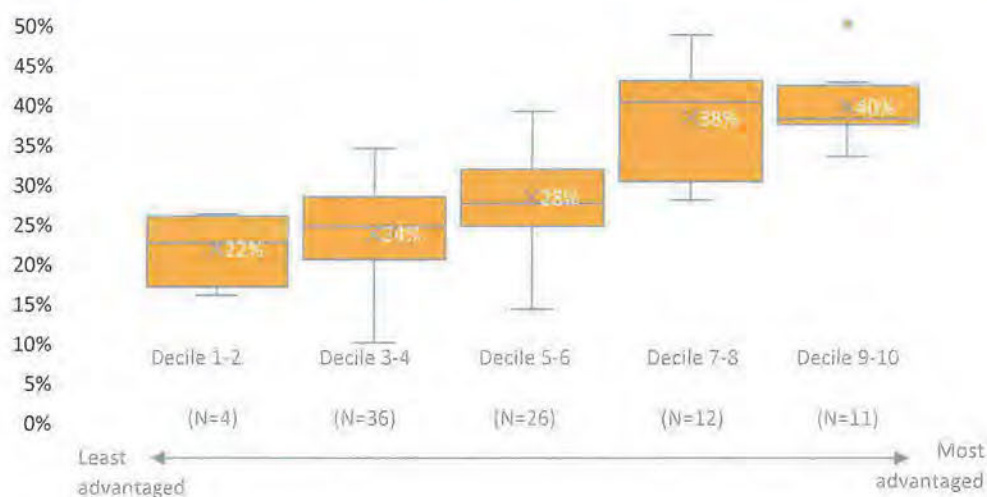
Source: CCS (2022) and various ABS (2016 and 2021) data

¹ Productivity Commission. (2015). <https://www.pc.gov.au/inquiries/completed/childcare/report>.

² The Mitchell Institute, 'Quality is key in Early Childhood Education in Australia' (2017), <<https://www.vu.edu.au/sites/default/files/quality-is-key-in-early-childhood-education-in-australia-mitchell-institute.pdf>>

Note: N represents the number of SA4s with ECEC services in each ARIA+ category. Access rates are dependent on the population group which attendance rates are compared against. These population groups vary by care type, as different care types typically service different segments of the ECEC market. The following populations groups were used in the access analysis: total ECEC: 0 – 13 years, CBDC: 0 – 5 years, OSHC: 5 – 12 years, FDC: 0 – 13 years and IHC: 0 – 13 years.

Chart 1.1: Variation in the proportion of the 0–5 year old population attending ECEC services across SA4s by SEIFA decile.



Source: CCS (2022) and various ABS (2016 and 2021) data.

Note: N represents the number of SA4s with ECEC services in each SEIFA decile. Access rates are dependent on the population group which attendance rates are compared against. These population groups vary by care type, as different care types typically service different segments of the ECEC market. The following populations groups were used in the access analysis: total ECEC: 0 – 13 years, CBDC: 0 – 5 years, OSHC: 5 – 12 years, FDC: 0 – 13 years and IHC: 0 – 13 years.

Consultations with ECEC service providers and peak bodies suggest that there can be a wide range of commercial and regulatory barriers to operating remote services. Specifically, ECEC regulation can be an obstacle to operating IHC and FDC services (which are common in more remote areas). For example, existing regulatory guidelines for IHC restrict an individual from being able to care for multiple families' children at the same time, even if they all reside in the same location. In addition, the substantial personal liability risk associated with IHC and FDC can create an unattractive value proposition for prospective providers.

Stakeholders also emphasised that that CBDC and OSHC providers often concentrate in comparatively high socioeconomic metropolitan areas as families can typically afford higher fees and demand is consistently strong. Families in higher socioeconomic areas may be able to provide more additional support for their children, and hence require less intensive assistance from childcare services.

Families from lower socio-economic backgrounds face barriers in accessing high-quality ECEC services. These barriers are complex and interrelated, including a lack of affordability, limited provider presence in low SES areas, limited understanding of the ECEC system by families and a lack of culturally sensitive services for families from diverse backgrounds.³

Providers also suggested that the CCS eligibility criteria creates barriers to the delivery of the kind of flexible care types that families may require. For example, the Productivity Commission's review of the ECEC sector found that the criteria are insufficiently flexible to cater to the needs of families

³ The Royal Children's Hospital Melbourne, 'Early childhood education: A study of the barriers, facilitators and strategies to improve participation' (2022), [https://www.rch.org.au/uploadedFiles/Main/Content/ccch/images/RSTO-CommBrief-ECEC-Barriers-Facilitators-Strategies-Jan2022\(2\).pdf](https://www.rch.org.au/uploadedFiles/Main/Content/ccch/images/RSTO-CommBrief-ECEC-Barriers-Facilitators-Strategies-Jan2022(2).pdf).



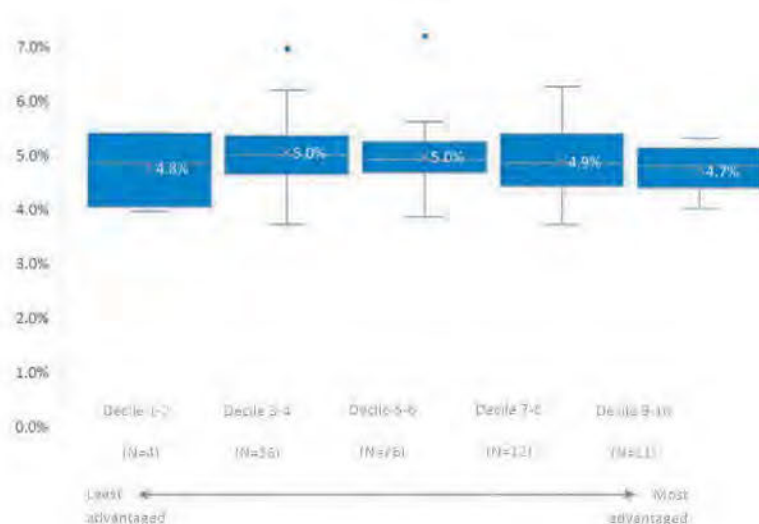
where parents work variable or non-standard hours.^{4,5} ECEC consumer groups expressed a similar sentiment, emphasising that while regulations are essential to ensure child safety - the most important goal of the system - they can also limit the types of services that are offered.

Consultations with services, peak bodies and consumer groups also highlighted that mainstream ECEC services can be ill equipped to support culturally diverse groups. Indigenous or culturally and linguistically diverse families may be hesitant to engage with approved services because of language or cultural barriers, or a lack of trust in government or providers.

1.2 Affordability and the cost of ECEC

On balance, the CCS system typically ensures that families spend a similar proportion of their income on ECEC. Analysis of CCS data suggests that across different Socio-Economic Indexes for Areas (SEIFA) scores, the average share of family's income spent on childcare narrowly ranges from between 4.7 per cent to 5 per cent (Chart 1.3). This is likely a reflection of the highly progressive nature of the CCS system, where subsidy rates range from 85 per cent to 0 per cent in line with family's income. Further, similar trends are observed when examining affordability across levels of regionality.

Chart 1.3: Variation in the weekly out-of-pocket expense as a proportion of weekly family income across \$44k, by SEIFA decile



Source: CCS (2022) and various ABS (2016 and 2021) data.

Note: This analysis is based off average out-of-pocket expense and attendance levels at a service-level. Affordability is only based off gross income, and hence does not consider the impact of progressive tax rates.

Despite this, there is evidence that affordability continues to be an issue for some families. For example, in 2019, 14 per cent of Australians who quoted childcare as the main reason for not participating in the labour force indicated that cost was their primary barrier to participation.⁶ Similarly, during consultations stakeholders from consumer groups noted that affordability can be challenging for certain families. For example, these stakeholders noted that the requirements of the CCS activity test disproportionately impact vulnerable cohorts in regional and remote Australia, as contextual factors such as high unemployment rates limit family's eligibility to receive the subsidy.

⁴ Productivity Commission. (2015). <https://www.pc.gov.au/inquiries/completed/childcare/report>.

⁵ Australian Government. (2016). Flexible child care: Key findings from the AIFS Evaluation of the Child Care Flexibility Trials.

⁶ Australian Bureau of Statistics. (2020).



Under current administrative settings, there is significant variation in the fees that CCS-approved services charge, which may contribute to these affordability concerns. As noted in the Productivity Commission's review of the sector, in the absence of setting benchmark prices for the efficient delivery of services, providers have significant discretion in adjusting their prices in response to different commercial and market settings. While this flexibility can be a positive characteristic of a market-based model, it does create a risk that in the absence of sufficient competition providers can charge excessive rates.

In addition to this, as several stakeholders noted, this price flexibility creates a risk that increasing subsidy levels from the Government do not correspond to enhanced affordability for families as providers increase their prices in-turn. Further investigation is required to determine the extent to which the benefits of subsidy increases are passed on to consumers as opposed to the providers. As the Productivity Commission has noted, in the absence of government intervention it is likely that both prices and government outlays will continue to increase in the future.⁷

Furthermore, international comparisons suggest Australia's average out-of-pocket expenses on ECEC are comparatively high compared to similar countries. For example, OECD analysis suggests that in 2021 Australia's average net childcare costs for a couple with two children in full-time care were the eighth highest of the 38 countries examined.⁸

Stakeholders also highlighted that while the Additional Child Care Subsidy (ACCS) is designed to support vulnerable families, the assessment criteria can result in inconsistent rules, a large administrative burden for families and culturally unsafe environments. Furthermore, the requirement for families to disclose risks for child neglect, abuse and/or harm, can result in poor engagement with ECEC services as families feel unsafe to attend the service out of fear of ACCS disclosure requirements. Without completion of the required documentation and subsequent receipt of assistance, vulnerable families may be unable to afford to access high equality ECEC services.

Finally, in addition to pure affordability concerns, there is evidence to suggest that the interaction between the CCS and tax systems can create disincentives to labour market participation. The allocation of the CCS on the basis of household income means that some families may choose to limit their engagement with ECEC services as it is more financially viable for them to dedicate their time to caring for their children rather than participating in the workplace.⁹ In turn, this may mean that children miss out on the educational benefits of quality early childhood education and the economy's participation rate is reduced.

Compounding these issues, stakeholder consultations with the department suggest that policymakers do not always have good visibility over the prices that services charge. This has the capacity to lead to greater uncertainty over the effectiveness of the CCS in promoting affordability and how this varies across different jurisdictions.

1.3 Building a professional ECEC workforce

While workforce issues are not a core focus of this Strategy, there was a consensus among providers and peak bodies during stakeholder consultations that workforce shortages are among the most pressing issues facing the sector. Stakeholders consistently highlighted their inability to recruit

⁷ Productivity Commission (2015), <https://www.pc.gov.au/inquiries/completed/childcare/report>

⁸ OECD, Net childcare costs (2022), < <https://data.oecd.org/benwage/net-childcare-costs.htm> >

⁹ Productivity Commission (2015), <https://www.pc.gov.au/inquiries/completed/childcare/report>



suitable staff, and the negative impact that this has on their ability to operate high-quality services in a diverse range of settings.

Stakeholders also emphasised how closely connected workforce issues are to the overall operation of the system and promoting other objectives such as access and quality. That is, that having a highly skilled, diverse, and motivated workforce is a necessary precondition to delivering quality education to children around the country. These comments also align with findings from a range of academic sources and the recent workforce strategy by ACECQA, that argued that a qualified stable workforce is vital in supporting the provision of high quality ECEC services and system outcomes.^{10,11}

A range of government reports and independent research projects have highlighted the challenges that the ECEC sector faces in attracting and retaining the workforce that it requires.^{12,13,14} Data collected by ACECQA suggests that the share of services holding a staffing waiver due to an inability to meet staffing requirements has increased to 6.7 per cent in 2021, from 4.5 per cent in 2019. Further, shortages appear to be most acute outside of major metropolitan regions, with approximately 10 per cent of services in outer regional, remote and very remote areas of Australia holding a temporary waiver for one or more of the staffing requirements under the NQF.¹⁵

Stakeholders also noted that these workforce issues appear to span across the sector, manifesting as both a weak pipeline of people entering the sector and low retention rates. This appears to align with data from the National Centre for Vocational Education and Research (NCVER) which reveals that from 2015 to 2021, commencements in Certificate III and Diploma ECEC programs have decreased by 29 per cent and 68 per cent respectively – indicating a substantial reduction in the volume of newly-qualified educators (Chart 1.4).

Retention issues appear to be driven by a wide range of factors, including limited opportunities for career development and progression, uncompetitive wages, high levels of personal responsibility and challenging working conditions.^{16,17,18} These findings align with stakeholder consultations, where providers and peak bodies frequently commented on the challenges associated with losing experienced staff members.

¹⁰ Fenech et al. (2021). Attracting, retaining and sustaining early childhood teachers: An ecological conceptualisation of workforce issues and future research directions, *Australian Educational Researcher*.

¹¹ ACECQA. (2022). *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022-2031* ([acecqa.gov.au](https://www.acecqa.gov.au))

¹² O'Connell et al. (2016). *Quality Early Education for All* (vu.edu.au)

¹³ Jackson. (2020). Every educator matters: Evidence for a new early childhood workforce strategy for Australia, Mitchell Institute, Victoria University.

¹⁴ ACECQA. (2022). *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022-2031* ([acecqa.gov.au](https://www.acecqa.gov.au))

¹⁵ ACECQA. (2022). *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022-2031* ([acecqa.gov.au](https://www.acecqa.gov.au))

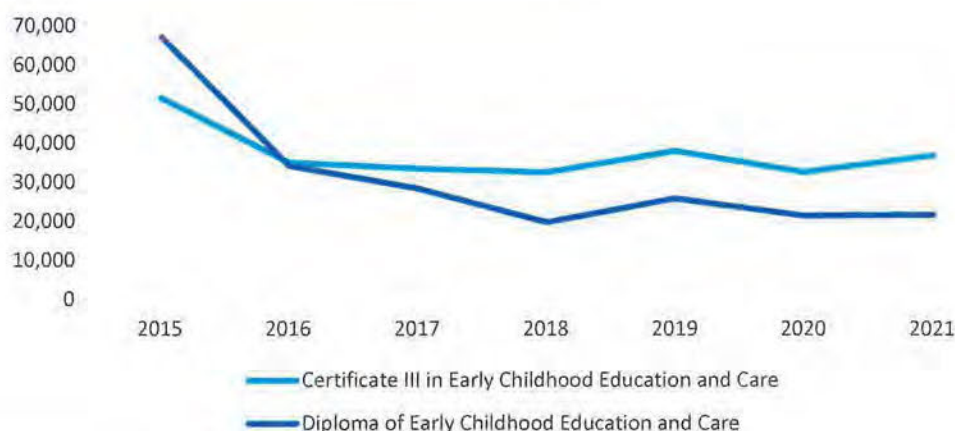
¹⁶ O'Connell et al. (2016). *Quality Early Education for All* (vu.edu.au)

¹⁷ Jackson. (2020). Every educator matters: Evidence for a new early childhood workforce strategy for Australia, Mitchell Institute, Victoria University.

¹⁸ ACECQA. (2022). *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022-2031* ([acecqa.gov.au](https://www.acecqa.gov.au))



Figure 1.4 Employment by VETECQ Qualification (2015-2021)



Source: National Centre for Vocational Education and Research (NCVER) data (2022).

There is a growing recognition that the ECEC workforce does not gain sufficient recognition, and that this contributes to the sector's workforce issues. This point was consistently highlighted by peak bodies and providers during the stakeholder consultation process, who noted that the public often fails to appreciate the educational value of the sector, and views it as solely being about providing care to children and enabling greater workforce participation for parents.

This finding was also highlighted in the ACECQA workforce strategy, which emphasised the need to raise the sector's professional recognition, including professional standing, pay and conditions, registration and community perceptions and values.¹⁹ The strategy also advocates for the use of a national communication campaign to educate Australians of the pertinent role of ECEC teachers and educators, and encourage a change in terminology from 'childcare' to help build professional recognition.²⁰

Relatedly, during stakeholder consultations several providers and peak bodies suggested that lifting the minimum qualification requirements could help enhance the reputation of the sector and encourage greater career progress and remuneration. However, stakeholders also noted the connection between raising workers' qualifications and pay and families inability to pay higher fees for services. Similarly, the Productivity Commission has noted how excessively raising qualification standards would reduce the pool of qualified workers and could therefore exacerbate labour shortages.²¹ This suggests that in considering changes to qualification requirements there is likely a trade-off between expanding the pool of potential workers and raising the professional standards and pay of the sector.

1.4 Ensuring high quality provision of services to families

The ECEC sector's existing understanding of quality is primarily focussed on assessing outputs and activities, rather than attempting to measure the overarching educational outcomes that the sector intends to achieve. There is a growing consensus that this focus on compliance is insufficient and does not place sufficient emphasis on measuring system outcomes such as those seen in the Australian Early Development Census (AEDC).^{22,23} This finding was further confirmed by stakeholder

¹⁹ ACECQA. (2022). *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022-2031* (acecqa.gov.au)

²⁰ ACECQA. (2022). *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022-2031* (acecqa.gov.au)

²¹ Productivity Commission (2015). <https://www.pc.gov.au/inquiries/completed/childcare/report>

²² ACECQA. (2012). *What is the NQF?* | ACECQA

²³ O'Connell et al. (2016). *Quality early education for all*. Melbourne, Australia: Mitchell Institute.



consultations with providers and government representatives. They emphasised that the sector's regulation has not adapted to reflect the increasing focus on children's education, rather than just providing care. This creates a risk that the sector is not effectively monitoring or incentivising the ultimate objective that it is aspiring to – that is, supporting children's educational development.

Stakeholders also noted that quality assessments can be subjective and are applied inconsistently across different jurisdictions. State and Territory regulatory authorities are responsible for administering the National Quality Framework (NQF) and different jurisdictions can have different interpretations and methods of applying the framework. It was noted that this can create confusion amongst providers and may limit policymakers' ability to drive system-wide reforms such as introducing additional rating requirements. Several State and Territory governments noted that there it would be helpful to expand collaboration across jurisdictions to ensure that there is greater consistency and mutual learning.

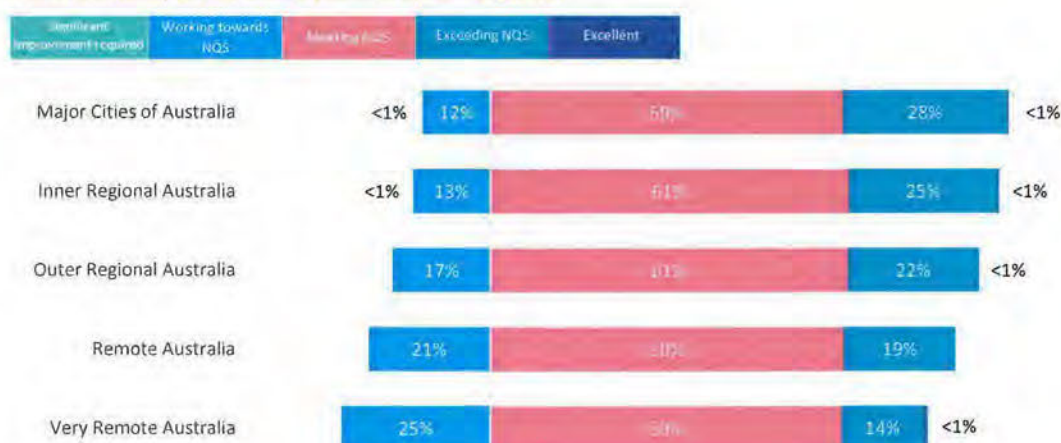
Consultations also reveal that these issues can be exacerbated by the lengthy review times involved in obtaining a new quality assessment.

Given that providers may have to wait several years for a new assessment, scores can be outdated (limiting their usefulness for consumers) and providers have little incentive to try and improve their performance if this may not be recognised for an extended period of time.

Analysis of ACECQA quality data suggests that services in remote and very remote regions of Australia are more likely to have lower quality assessments than services in more metropolitan areas (Chart 1.5). While the share of providers that are rated as 'Meeting NQS' is relatively stable across different levels of remoteness (ranging from between 60-61%), services in remote and very remote Australia were approximately twice as likely to be assessed as 'Working Towards NQS'. This suggests that there is a clear risk that children in more remote areas of Australia are not able to access the same quality of care as those in metropolitan or inner regional areas.

Stakeholder consultations with service providers and peak bodies suggests that this difference may be driven by a wide range of factors, including workforce issues and a lack of competition. Stakeholders consistently noted that attracting and retaining staff is particularly challenging in remote areas of Australia, and that high staff turnover levels and a lack of experienced staff can undermine quality. The limited competition amongst providers in remote areas may create little necessity for providers to try and lift quality standards.

Chart 1.5: Quality of ECEC service provision by ARMA, Q3 2022



Source: ACECQA data (2022).

Notes: Some services are assessed against the 2012 NQS and others the 2018 NQS. The analysis excludes providers who do not have a NQS rating.



1.5 Delivering a coherent and connected system

The Productivity Commission's 2015 review of the sector highlighted that the division of responsibilities between the Australian and state and territory governments can lead to a lack of coherence in the development and implementation of ECEC policy.²⁴ This appears to be a consequence of the historical relationship between the department and state and territory governments, which has been primarily focussed on funding and has not given sufficient attention to collaboration on issues adjacent to this.²⁵ This lack of collaboration can limit the development of place-based solutions suited to local needs, delay responsiveness to emergent issues and impair efficiency and effectiveness of system initiative implementation.²⁶

Stakeholder consultations consistently re-affirmed this finding, highlighting that there are several aspects of the system which lack role clarity. For example, stakeholders from both the department and state and territory agencies highlighted how they often did not have good oversight of the operations of other jurisdictions, and how this could create confusion. These stakeholders also noted how there are significant responsibility gaps within the system, with a lack of clarity over which agency was responsible for key issues such as workforce shortages or affordability concerns.

This lack of role clarity also manifested itself as limited coordination in the collection and sharing of data across the ECEC system. For example, stakeholders from the department and other Australian Public Service Agencies noted how data collected across a child's journey with the ECEC system (i.e., which services they were enrolled in, what outcomes they achieved) were not effectively shared or analysed. This lack of data sharing has the potential to both limit policymakers' ability to make evidence-informed decisions, and providers ability to understand and respond to the needs of families. For example, stakeholders noted how the existing administrative relationship whereby Services Australia is responsible for administering the CCS and collecting the required data, while the department is responsible for managing CCS policy can create inefficiencies.

Stakeholder consultations with consumer groups and providers highlighted that there can be a lack of coordination between ECEC and related support services providing health, disability, and developmental support. This can have several negative consequences, including an expanded administrative burden on families who are required to supply the same data to and navigate multiple different systems; a lack of consistency in the care that children receive if multiple experts working with the same child are not able to effectively share information; and an increased likelihood that vulnerable children do not receive the full set of support they require if referrals and linkages to other systems are not made.

The potential challenges and benefits associated with providing integrated delivery models in ECEC have been widely studied. For example, it has been noted that ECEC provides a unique opportunity to provide a non-stigmatised entry point for families to receiving a wide range of additional support services that may be necessary to strengthen a child's learning and development.²⁷ Notwithstanding this, it is also clear that effective integrated care models require clear governance arrangements, leadership, and interdisciplinary professionals.²⁸

Appendix B: Detailed system map

A market steward's role is to coordinate market actors, to shape the market activity to align with system outcomes. As identified above, a key component of this stewardship function is to define

²⁴ Productivity Commission, (2015). <https://www.pc.gov.au/inquiries/completed/childcare/report>

²⁵ Productivity Commission, (2015). <https://www.pc.gov.au/inquiries/completed/childcare/report>

²⁶ Productivity Commission, (2015). <https://www.pc.gov.au/inquiries/completed/childcare/report>

²⁷ https://www.childaustralia.org.au/wp-content/uploads/2017/03/CSU-PSCA-Integrated-Services-Report_Final-1.pdf

²⁸ https://www.childaustralia.org.au/wp-content/uploads/2017/03/CSU-PSCA-Integrated-Services-Report_Final-1.pdf



clear boundaries for system actors that map back to system objectives. In the context of the ECEC Market, a critical step in establishing the Department as a market steward will be to understand how families, providers, regulators/stewards, and other invested stakeholders interact in the market and how these interactions map into the broader system. The system mapping set out in this Appendix seeks to define the scope and roles of each system and market actor:

- Section 1 provides a **visual schematic of the ECEC Market actors position in the ECEC ecosystem**, with conceptual groupings that relate to the different roles and responsibilities currently held by each actor. The visual is accompanied by a summary table that describes each actor's high-level roles and responsibilities.
- Section 2 **distinguishes between the ECEC 'market' and the ECEC 'system'**.
- Recognising that there are various relationships between the system actors' roles and functions, Section 3 considers how **different market actors interact to support different domains of the ECEC ecosystem**: to provide policy direction, design and enact a funding model, provide services to families, to support market regulation and to build the workforce and industry capability.

The system mapping exercise is extended in Appendix C, which analyses how these roles and responsibilities of actors align to the different market outcomes which they are accountable for supporting. This system mapping (and subsequent accountability mapping) provides inputs to answers to several of the research questions included in the project's analytic plan, as set out below.

Table 0.1 Analytic questions informed by system and accountability mapping

Analytic questions
<i>Theme 1: role of Government and others as Market Stewards</i>
How should the Australian Government define market stewardship in the context of ECEC?
Who are the major co-stewards, actors and stakeholders in the Australian ECEC system / market, what are their current roles?
What should be the role of the Australian Government and co-stewards in the Australian ECEC market?
<i>Theme 2: Understanding the ECEC market and submarkets</i>
What is the current state of ECEC market and system in Australia?
What is the current state of the ECEC markets and sub-markets?
What other systems or markets does the ECEC market influence, and what markets influence the ECEC market?
<i>Theme 3: overseeing the ECEC market</i>
What oversight activities and functions does the Australian Government currently undertake in relation to ECEC markets?
What activities and functions are currently being undertaken by actors which might assist the Government to achieve its own Market goals, and what should the Government do to influence them?

1.1 Map of system actors

The map of system actors provides an overview of all the actors in the ECEC system. Figure 0.1 is divided into nine domains which group actors by their high-level responsibilities. These domains include:



- **ECEC strategic direction** is provided by Governments at a federal and state and territory level.
- **Funding**, which captures agencies that fund ECEC services, relevant government departments, and provide subsidies to families and children.
- **Policy**, which captures agencies that set ECEC policy or assist in service planning. ECEC policy is set by the Department of Education and state and territory policy agencies, with national agreements achieved through the National Cabinet.
- **Regulation**, a segment that recognises the regulatory role of state and territory governments and federal government agencies such as the ACCC, ASIC, and ATO play in monitoring and ensuring providers' compliance with their regulations and business responsibilities.
- **Quality improvement**, which centres around the core agencies of ACECQA, the Department of Education, and the jurisdiction level policy and regulatory authorities, as well as other supporting federal government agencies that support these actors.
- **ECEC and related service delivery**, capturing the 'delivery' component of the sector, including both providers and the aligned services for families provided by the government and other agencies alongside or integrated within ECEC.
- **Advocacy, peak bodies, think tanks, and advisory bodies** which undertake research and advocacy on behalf of families, providers, workforce, and/or the sector as a whole.
- **Workforce**, which captures teachers and educators, the unions which represent their interests, and the VET and higher education providers that ensure they are appropriately qualified to work.
- **Children and their families**, which captures the main families of ECEC services.

Table 9.4: 'System actors' role in ECEC sector

System actor	Role in ECEC sector
National Cabinet	The National Cabinet addresses priority national federation issues, including agreement on policy reform. ²⁹
Commonwealth ministers	Commonwealth ministers are: <ul style="list-style-type: none"> • Responsible for their relevant portfolio, including the development of government policy and legislation. • Accountable for the actions of their department.³⁰ • Relevant ministers include the portfolio Ministers of DE, DSS, The Treasury, and the Department of Finance.
State and territory ministers	State and territory ministers are: <ul style="list-style-type: none"> • Responsible for relevant portfolio, including the development of government policy and legislation. • Accountable for actions of their department. • Relevant ministers include the ministers of the education policy agencies and regulatory authorities.
Department of Education	The Department's key responsibilities are fiscal and include: <ul style="list-style-type: none"> • Financial assistance to eligible families to help with the costs of ECEC. • Operational and capital funding to certain ECEC providers, and to support the provision of quality care; and • Funding for state and territory governments through national partnership agreements.³¹

²⁹ 'National Cabinet', *Federation* (2022) <<https://federation.gov.au/national-cabinet>>

³⁰ Department of the House of Representatives, *House of Representatives Practice* (2018), 7, <https://www.aph.gov.au/About_Parliament/House_of_Representatives/Powers_practice_and_procedure/Practice7/HTML/Chapter2/The_Ministry>

³¹ Sheppard M, 'Child care in Australia: a quick guide', *Parliament of Australia* (2015) <https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1415/Quick_Guides/Child_care>



System actor	Role in ECEC sector
Commonwealth Treasury	The Treasury develops the Federal Government's budget, including funding for Education portfolio and changes to financial assistance. ³²
Department of Prime Minister and Cabinet	The Department of Prime Minister and Cabinet provide advice and support to the Prime Minister, the Cabinet, Portfolio Ministers and Assistant Ministers to achieve a coordinated approach to the development and implementation of Government policies. The Department coordinate and develop policy across the Government in economic, domestic and international issues and public service stewardship. ³³
State and territory education policy agencies	State and territory governments' child care responsibilities vary but may include: Providing operational and capital funding to non-government service providers delivery of services; Providing information, support, training, and development opportunities for providers; and Providing curriculum and policy support and advice, as well as training and development for management and staff. ³⁴
Local government	Local governments' ECEC responsibilities vary but include: Appendix A Provision planning of early childhood education and care (including land use planning and leasing of council premises); and Appendix B Direct service provision. ³⁵
Department of Employment and Workforce Relations	The Department of Employment and Workforce Relations responsible vary but include: • funding VET and higher education providers to training ECEC teachers and educators
The Department of Finance	The Department of Finance administers revenue, grant, and subsidy schemes. ³⁶
Services Australia	Services Australia distributes financial assistance to eligible families to help with the costs of ECEC. The CCS is paid directly to the child care provider to reduce fees paid by families. ³⁷
ACECQA	ACECQA works with the Department and state and territory governments to: ✓ Implement changes that benefit children birth to 13 years of age and their families; ✓ Monitor and promote the consistent application of the Education and Care Services National Law across all states and territories; and ✓ Support the children's education and care sector to improve quality outcomes for children. ³⁸
State and territory regulatory authorities	State and territory governments' regulatory agencies' responsibilities vary but may include: ✓ Assesses applications for provider approvals, service approvals; ✓ Assesses and rates education and care services against the National Quality Standard; ✓ Supports and promotes continuous quality improvements in education and care services; ✓ Investigates incidents and complaints; and ✓ Monitors and enforces compliance with the NQF. ³⁹
ACCC	The ACCC's role in monitoring public service markets includes: ✓ Maintaining and promoting competition; ✓ Protecting the interests and safety of consumers, and supporting fair trading in markets affecting consumers and small business;

³² 'About Treasury', Commonwealth Department of Treasury (2022), <<https://treasury.gov.au/the-department/about-treasury>>

³³ 'The Department', Department of Prime Minister and Cabinet, (2022), <<https://www.pmc.gov.au/who-we-are/the-department>>

³⁴ Sheppard M, n 4.

³⁵ NSW Department of Education, 2020 COVID-19 Local Government Early Childhood Education and Care payment program guidelines (2020) <<https://education.nsw.gov.au/early-childhood-education/operating-an-early-childhood-education-service/grants-and-funded-programs/covid-19-local-government>>

³⁶ 'About Finance', Australian Department of Finance (2022), <<https://www.finance.gov.au/about-us/department>>

³⁷ 'Child Care Subsidy', Services Australia (2022), <<https://www.servicesaustralia.gov.au/child-care-subsidy>>

³⁸ 'About Us', The Australian Children's Education and Care Quality Authority (2022), <<https://www.acecqa.gov.au/about-us>>

³⁹ 'Contact your regulatory agency', The Australian Children's Education and Care Quality Authority (2022), <<https://www.acecqa.gov.au/help/contact-your-regulatory-authority>>



System actor	Role in ECEC sector
	<ul style="list-style-type: none"> ✓ Promoting the economically efficient operation of, use of, and investment in infrastructure and identifying market failure; and ✓ Undertaking market studies and inquiries to support competition, consumer, and regulatory outcomes.⁴⁰ <p>Under the election commitments of the Australian Labour Party, the ACCC may be tasked with designing a price regulation mechanism to put a downward pressure on families' out of pocket costs in child care.</p>
ASIC	ASIC is responsible for registering businesses including ECEC providers and making information regarding companies' ownership and activities publicly available. ⁴¹
ATO	<p>The ATO is responsible for:</p> <ul style="list-style-type: none"> ✓ Providers with performance benchmarks.⁴² <p>Additionally, Service Australia utilises mean-testing to reconcile the tax return, in which ATO is responsible for.⁴³</p>
ECEC services providers	<p>ECEC service providers:</p> <ul style="list-style-type: none"> ✓ Provide ECEC services to children and families. ✓ Satisfy obligations under both Commonwealth and state and territory laws including: ✓ Comply with Family Assistance Law; ✓ Comply with National Law and National Regulations and all related state or territory laws involving the operation of an ECEC service, unless that service is exempt; ✓ Ensure the ECEC provider and relevant personnel are fit and proper persons to have a role in the receiving and passing on of CCS payments; and ✓ Ensure that background checks, including criminal history and working with children checks, are carried out for relevant staff and educators.⁴⁴
Other state government departments	Provide broader policy and supports for children which may be provided in parallel to or in the same location as ECEC. These services and services might include disability support, child protection, and child immunisation.
Not-for-profit community services	Not-for-profit services may take on a breadth of roles in different contexts. Actors might include charity, religious, cultural, or other community groups that work with children and their families in ECEC settings. Some not-for-profit organisations may own or operate care services, while others may provide more targeted 'wrap-around' supports for families which could be delivered alongside ECEC (e.g., healthcare for children and families, social services, food banks, English language supports, cultural or religious services).
NDIA	The NDIA is an independent statutory authority, whose role is to implement the NDIS. As part of the NDIS, funding for appropriate supports is provided to children with disabilities. ⁴⁵
NIAA	<p>The National Indigenous Australians Agency is an Australian Government agency with responsible for whole-of-government coordination of policy development, program design, and service delivery for Aboriginal Australians and Torres Strait Islander people.⁴⁶</p> <p>Additionally, they develop and release the National Aboriginal and Torres Strait Islander Early Childhood Strategy.⁴⁷</p>
Children and their families	<ul style="list-style-type: none"> ✓ Enrolment of children in services. ✓ Payment of fees to ECEC service providers.

⁴⁰ 'About the ACCC', Australian Competition and Consumer Commission (2022), <<https://www.accc.gov.au/about-us/australian-competition-consumer-commission/about-the-accc>>

⁴¹ 'Our role', Australian Securities and Investment Commission (2022), <<https://asic.gov.au/about-asic/what-we-do/our-role/>>

⁴² 'Child care services', Australian Taxation Office (2022), <<https://www.ato.gov.au/business/small-business-benchmarks/in-detail/benchmarks-a-z/a-c/child-care-services/>>

⁴³ 'Child Care Subsidy - Your family income estimate', Services Australia (2022), <<https://www.servicesaustralia.gov.au/your-family-income-estimate-for-family-assistance-payments?context=41186>>

⁴⁴ The Commonwealth Department of Education, Skills and Employment, 'What is an approved provider?' (2022), <<https://www.dese.gov.au/child-care-package/child-care-provider-handbook/becoming-approved-provider/what-approved-provider>>

⁴⁵ 'The early childhood approach', NDIS (2022), <<https://www.ndis.gov.au/understanding/families-and-carers/early-childhood-approach>>

⁴⁶ 'The Agency', National Indigenous Australians Agency (2022), <<https://www.niaa.gov.au/who-we-are/the-agency>>

⁴⁷ National Aboriginal and Torres Strait Islander Early Childhood Strategy', National Indigenous Australians Agency (2021), <<https://www.niaa.gov.au/resource-centre/indigenous-affairs/national-aboriginal-and-torres-strait-islander-early-childhood-strategy>>



System actor	Role in ECEC sector
	✓ Reports any consumer issues to relevant agencies.
Teachers and educators	<ul style="list-style-type: none"> ✓ Deliver ECEC education to children. ✓ Obtain qualifications to ensure capability to deliver to the required standard.⁴⁸
Unions	Several ECEC unions take on roles such as representing ECEC employees in negotiations with employers and the Government on workforce relations issues, including remuneration, working conditions, and training. ⁴⁹
VET providers	VET providers award qualifications in ECEC education (e.g., Certificate III in Early Childhood Education and Care and Diploma of Early Childhood Education and Care). Individuals with relevant VET qualifications may become ECEC educators. ⁵⁰ The NQF states that all educators must be working toward or have obtained a Certificate III qualifications, with at least 50 per cent of educators requiring a diploma or higher. ⁵¹
Higher education providers	Higher education providers award qualifications in ECEC education (e.g., a bachelor's or master's degree in early childhood education). Individuals with relevant higher education qualifications may become ECEC teachers, to meet the NQF's requirements around the teacher to child ratio. ^{52,53}
Peak bodies	Advocates for the interests of young children, their families, and ECEC sector. ⁵⁴
Think tanks and advisory groups	Provide research for families, researchers, and policymakers. Additionally, they may advocate for the workforce, providers, and/or industry.
Professional organisations	Provides research and advice to services, families, researchers, and policymakers.

⁴⁸ 'Early childhood teaching: make a difference', DET Victoria (2022), <<https://www.vic.gov.au/make-difference-early-childhood-teaching>>

⁴⁹ *The Australian Children's Education and Care Quality Authority* n17.

⁵⁰ Ibid.

⁵¹ 'Qualifications for centre-based services with children preschool age or under', *The Australian Children's Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/qualifications/requirements/children-preschool-age-or-under>>

⁵² Department of Education and Training Victoria n18.

⁵³ *The Australian Children's Education and Care Quality Authority* n104.

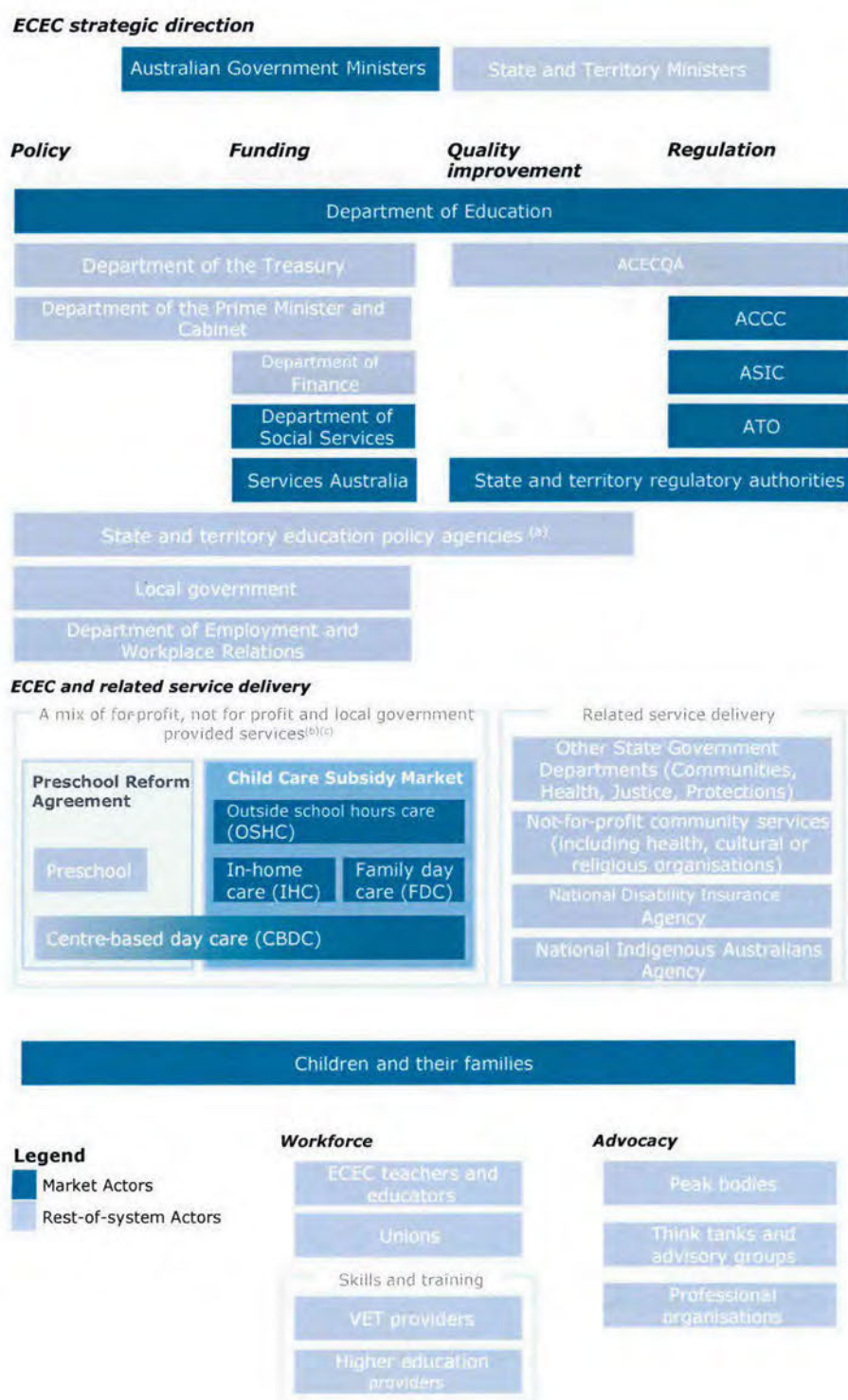
⁵⁴ 'Useful links', *The Australian Children's Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/help/links>>



1. Distinguishing the 'market' from the 'system'

As articulated in Chapter 2, the market components in this context are defined as those components funded through the CCS. This distinction is visualised in Figure 0.1 which highlights actors in the market for services funded under the CCS as a subset of the system. These market interactions are identified in Section 5.1.12.

Figure 0.1 ECEC System Map - Market and rest-of-system actors



Notes: (a) Not all jurisdictions have separate Education Policy Agencies and Regulatory Authorities. For example, in NSW the Department of Education is both the policy agency and the regulatory authority. In WA, the education policy agency is the Department of Education WA, while the regulatory authority is the Department of Communities.

(b) The market share of different care types varies across jurisdictions

(c) In some states, local governments support provision planning and fund infrastructure, while in others, local governments own and operate providers.

2. Interactions across the ECEC system

As identified in Section 5.1.11 there are numerous ways in which the relationships between system actors can be linked. This section seeks to outline the interactions and interdependencies between actors across the system, as they relate to the domains set out in the system map.

Policy direction

Figure 0.3 outlines the policy interactions in the ECEC system. The department and state and territory governments are responsible for ECEC policy, with national agreements achieved through the National Cabinet.⁵⁵ At the state and territory level, education policies are determined by the education policy agency, supported by external authorities. For example, ACECQA helps to administer the NQF for state and territory regulatory agencies.⁵⁶

The Department of the Treasury sets the policy for market regulators, such as the ACCC, ASIC, and ATO. Department of Finance determines funding to relevant federal government departments to achieve policy. Industry bodies and service providers may have active engagement with the government to advocate for the best outcomes and to influence policy direction.^{57, 58, 59}

Service provision

Figure 0.4 outlines the interactions of service provision in the ECEC system – including early childhood development, ECEC, and community services. A mix of for-profit, not for profit and local government ECEC services are provided to children and their families. As part of the service delivery, the ECEC services providers are responsible for passing on the CCS.⁶⁰ Noting, that the role of local governments varies across LGAs, and in some circumstances are the providers of ‘last resort’.

The ECEC system is supported by broader system agencies including other government and not-for-profit services that deliver broader policy and support for children. This includes disability support, child protection services, social services, and child immunisation.

Additionally, the Department of Education provides financial support to children and families to support access service provision.⁶¹

Funding

This section and Figure 0.5 outline the funding flows of ECEC service delivery, it also includes funding for training, programmatic interventions, or operational expenditure.

⁵⁵ ‘National Cabinet’, *Federation* (2022) <<https://federation.gov.au/national-cabinet>>

⁵⁶ ‘About Us’, *The Australian Children’s Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/about-us>>

⁵⁷ ‘About the ACCC’, *Australian Competition and Consumer Commission* (2022), <<https://www.accc.gov.au/about-us/australian-competition-consumer-commission/about-the-acc>>

⁵⁸ ‘Our role’, *Australian Securities and Investment Commission* (2022), <<https://asic.gov.au/about-asic/what-we-do/our-role/>>

⁵⁹ ‘Child Care Subsidy - Your family income estimate’, *Services Australia* (2022), <<https://www.servicesaustralia.gov.au/your-family-income-estimate-for-family-assistance-payments?context=41186>>

⁶⁰ ‘Child Care Subsidy’, *Services Australia* (2022), <<https://www.servicesaustralia.gov.au/child-care-subsidy>>

⁶¹ Sheppard M, ‘Child care in Australia: a quick guide’, *Parliament of Australia* (2015)

<https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1415/Quick_Guides/Child_care>



The Department of Education administers the Child Care Subsidy to families, therefore indirectly funding OSHC, FDC, CBDC, and IHC. Funding for preschool is provided by the Department of Education but flows through state and territory education policy agencies. Under the Preschool Reform Agreement, the department provides a per child contribution to states and territories – approximately \$1,340 per child in 2022. The state and territories must pass on the per-child contribution to the children, regardless of the setting in which they receive a preschool program.⁶²

In addition, the Department of Education and state and territory education policy agencies provide additional operational and capital funding to certain child care providers (see Table 0.3), noting that this will change following the 2022 implementation of the Preschool Reform Agreement. Further, local governments may also provide a role in funding ECEC services, including funding infrastructure and support services.

Additionally, the federal government agencies provide financial assistance to eligible families to help with the costs of child care. The amount of child care subsidy received is dictated through policy developed by the Department of Education and the Australian Tax Office supports means-testing the CCS.⁶³ Families also provide funding to ECEC services in the form of payments and the amount varies depending on the child care subsidy received. The Department of Education also provides funding to ACECQA for its operations.

Third-party funding flows may also exist between state and territory agencies, other state government departments, and/or not-for-profit community services which may fund the out-of-pocket expenses. This is depicted in Figure 0.4 as a broken grey line. The Department of Education also funds programmatic interventions through providing funds to providers, community services and families.

The Department of Education also funds the Community Child Care Fund (CCCF), which provides a range of grants for child care services. The CCCF aims to address barriers to child care participation, in particular it is aimed at disadvantaged, regional and remote communities, and Indigenous communities. The CCCF consists of:⁶⁴

- Special circumstances grant which helps services stay open when there is an unexpected event that impacts their ability to stay open, for example a local emergency or natural disasters.
- Disadvantaged and vulnerable communities grant which provides funding to services in disadvantages and vulnerable communities to increase the number of children in care, and ensure the services stay open.
- Restricted grant which supports identified services in disadvantaged and vulnerable communities, including remote locations where there is a focus to increase participation rates of Aboriginal and Torres Strait Islander children in early childhood education and care.
- Connected Beginnings which is for services in identified Aboriginal and Torres Strait Islander communities. It helps prepare children for school by integrating a range of services with schools including, early childhood, maternal, child health, and family support.
- Business Support which is a free business review and advice service for eligible child care services. It is available to child care services experiencing financial viability or sustainability issues, particularly in disadvantaged or vulnerable communities.

Additionally, higher education providers and VET providers receive funding from the Department of Employment and Workforce Relations.

⁶² 'Preschool Reform Funding Agreement', *Department of Education* (2022), < <https://www.dese.gov.au/child-care-package/preschool/preschool-reform-funding-agreement> >

⁶³ Sheppard M, 'Child care in Australia: a quick guide', *Parliament of Australia* (2015)

< https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1415/Quick_Guides/Child_care >

⁶⁴ 'Community Child Care Fund', *Department of Education* (2022), < <https://www.dese.gov.au/child-care-package/community-child-care-fund> >



Table 0.3 Summary of ECEC service funding by Australian, state and territory governments, 2020-21

Funding provider:	Australian Government	NSW	Victoria	QLD	WA	SA	Tasmania ^a	ACT ^b	NT ^c
Funded ECEC services, for service types									
Centre based day care	✓	✓	✓	✓	✓	✓	✓		✓
OSHC	✓	✓		✓	✓		✓		
Family day care	✓				✓				✓
In home care	✓								
Funded preschool services/programs									
Local government/ community preschools		✓	✓	✓	✓				✓
For-profit centred based day care		✓	✓	✓					✓
Not-for-profit centre- based day care		✓	✓	✓		✓		✓	✓
Government school		✓	✓	✓	✓	✓	✓	✓	✓
Non-government school		✓	✓	✓	✓	✓	✓		✓

Notes: (a) In Tasmania, some child care services may receive funding under an annual, small capital grants (minor infrastructure) program. These services are not included in this table unless they also receive recurrent funding.

(b) In the ACT, child care services and preschool services outside the government sector may receive support through capital grants, rental subsidies, and funding through budget initiatives. These services are not included in this table unless they also receive recurrent funding.

(c) The NT Government also provide funding to 3-year-old kindergarten services.

Source: Productivity Commission (2021)

Regulation

This section and Figure 0.5 outline the regulation of the ECEC sector. It does not include the regulation of NDIS, higher education, VET providers, or the workforce. There are two types of regulation in the ECEC market: ECEC specific regulation and whole of economy regulation.

The ACECQA administers the NQF and accompanying NQS which guide providers' and the workforce's activity. State and territory regulatory authorities work with the provider sector to enact NQF and ensure compliance with the NQS, by:⁶⁵

1. Assessing applications for provider approvals, - noting that the Department of Education also assesses applications for provider approvals.
2. Assessing provider performance against the NQS
3. Investigating incidents and complaints
4. Monitoring and enforcing compliance with the NQF

⁶⁵ 'About Us', The Australian Children's Education and Care Quality Authority (2022), <<https://www.acecqa.gov.au/about-us>>



State and territory regulatory authorities have regular contact with providers and are a key point of contact for providers' quality or compliance issues. Regulatory authorities are responsible for:

5. Granting approvals, include provider approval and service approvals.
6. Assessing and rating services against the NQS
7. Working with ACECQA to promote continuous, quality improvement and educating the sector and community about the NQF.

Regulatory authorities also have a range of powers and tools to facilitate continuous improvement and ensure compliance with the NQF, including the ability to issue compliance notices. Further, regulatory authorities provide NQF and NQS data to ACECQA.⁶⁶

The Department of Education supports regulation and compliance by monitoring for and taking action to remove fraudulent providers from the funding system. Further, Services Australia is responsible for regulating the Child Care Subsidy and taking action to remove fraudulent families from accessing the subsidy.

Additionally, market regulators including ACCC, ASIC, and ATO regulate ECEC providers and provide consumer protection.

Guidance and resources

Figure 0.6 outlines the system interactions, relating to the provision of guidance and resources. ACECQA, Department of Education, state and territory agencies, Services Australia and DSS provide ECEC policy advice and sector resources to the relevant Ministers and the National Cabinet. Department of Education disseminates national ECEC policy resources to state and territory education policy agencies.⁶⁷

ACECQA provides relevant guidance relating to the NQF and NQS to the Department of Education and state and territory regulatory agencies. ACECQA also developed the NQA ITS the online administrative system for implementing the NQF. Once registered, providers use the NQA ITS to view records, submit applications and notifications, and pay invoices.⁶⁸

Industry bodies provide research for families, researchers, and policymakers. The industry may regularly engage with service providers or the workforce to understand emerging trends or issues.⁶⁹ Additionally, industry bodies actively engage with the government to advocate for the best outcomes.

Department of Education, DSS and Services Australia disseminate resources relating to the provision of the CCS to children and families. ECEC services provide market regulation resources to market regulators and relevant information (e.g., incidents of abuse) to appropriate system agencies.

Children and families, and ECEC providers have a two-way relationship. Children and families provide feedback to ECEC providers regarding their services, and ECEC providers provide information about their services to families and children.

⁶⁶ 'Contact your regulatory agency', *The Australian Children's Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/help/contact-your-regulatory-authority>>

⁶⁷ 'About Us', *The Australian Children's Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/about-us>>

⁶⁸ 'About Us', *The Australian Children's Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/about-us>>

⁶⁹ 'Useful links', *The Australian Children's Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/help/links>>



Workforce

educators employed by service providers. Unions support workforce relations and ECEC training providers (e.g., higher education institutions and VET providers) provide the workforce's qualifications.⁷⁰

ACECQA, the Department of Education, and state and territory educational policy agencies and regulatory authorities provide support and regulate the ECEC workforce. The NQF states that educators must be working toward a Certificate III, with at least 50 per cent of educators requiring a diploma or higher. Further, the NQF outlines the teacher requirements for the number of children in attendance.⁷¹ Additionally, ACECQA developed the National Children's Education and Care Workforce strategy.⁷² State and territory government departments also provide support to the ECEC workforce.

Quality improvement

Figure 0.8 outlines the ECEC system interactions relating to quality improvement. ACECQA and state and territory policy agencies and regulatory authorities provide services or support to enhance the quality of ECEC services, including the provision and compliance with the NQF and NQS. Additionally, the quality and compliance of the workforce will enhance the quality of ECEC services. Children and families provide a feedback loop to service regarding the quality of care.

System maps

The interactions between actors in each ECEC submarket described above are visualised in the figures which follow.

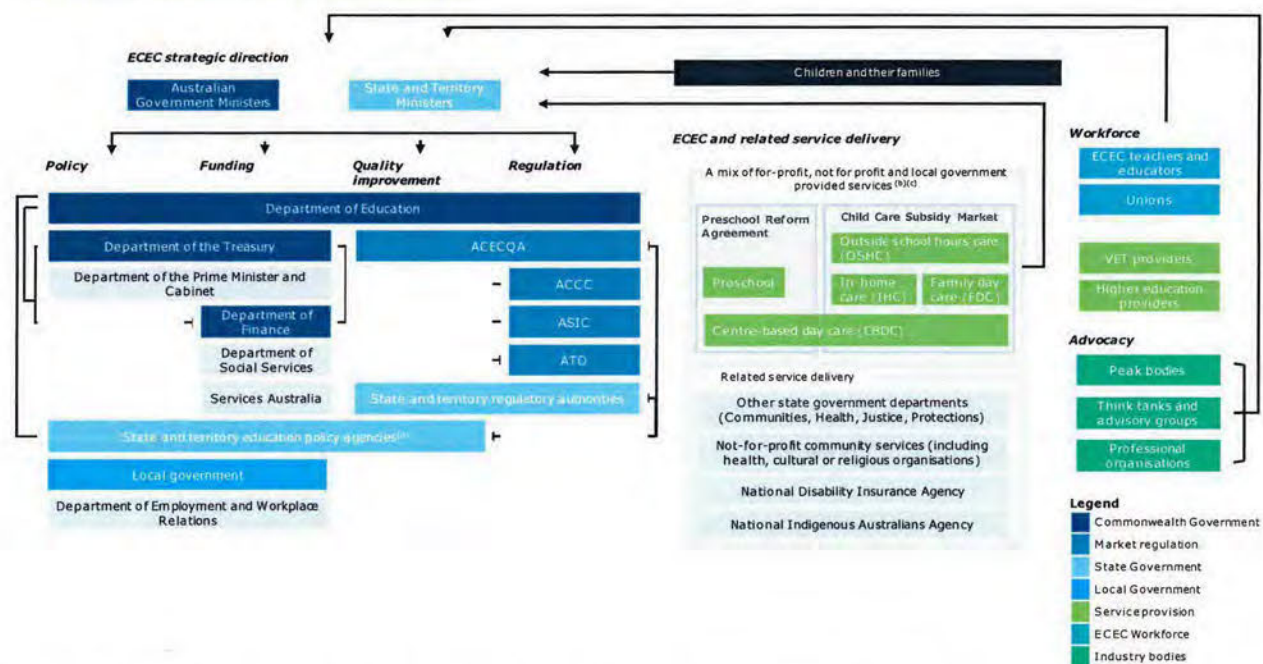
⁷⁰ The Australian Children's Education and Care Quality Authority n17.

⁷¹ 'Qualifications for centre-based services with children preschool age or under', The Australian Children's Education and Care Quality Authority (2022), <<https://www.acecqa.gov.au/qualifications/requirements/children-preschool-age-or-under>>.

⁷² The Australian Children's Education and Care Quality Authority, National Children's Education and Care Workforce Strategy (2022-2031), (2022), <<https://www.acecqa.gov.au/national-workforce-strategy>>.



Figure 2 Interactions across the ECEC System – Policy direction



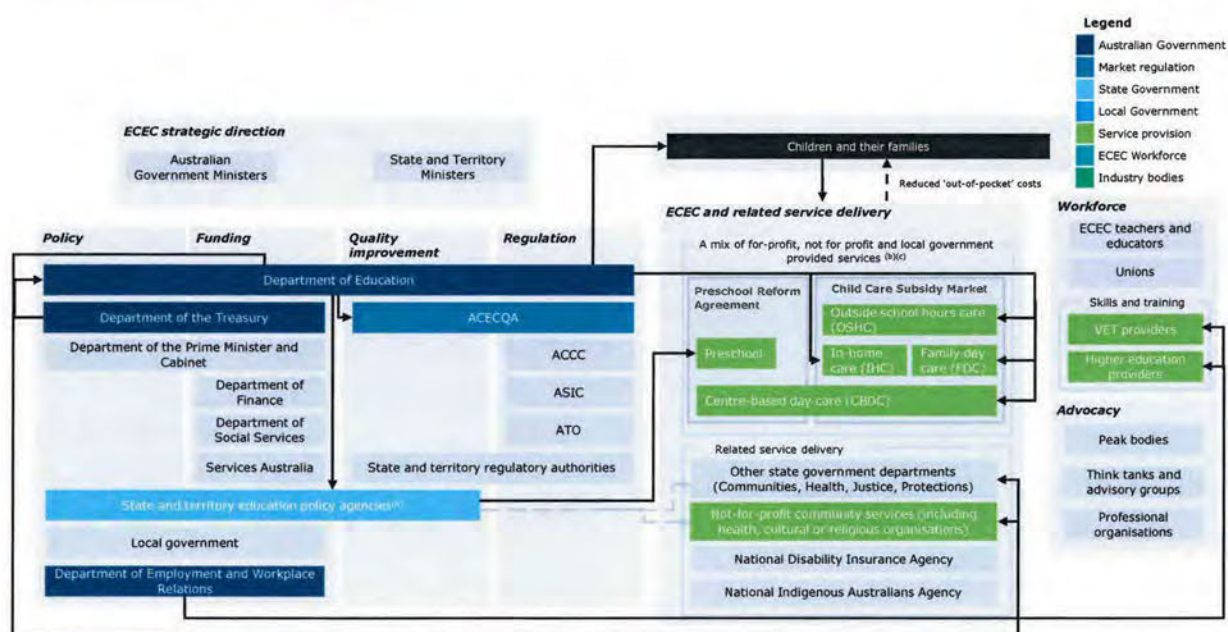
Notes: (a) Not all jurisdictions have separate Education Policy Agencies and Regulatory Authorities.

For example, in NSW the Department of Education is both the policy agency and the regulatory authority. In WA, the education policy agency is the Department of Education WA, while the regulatory authority is the Department of Communities.

(b) The market share of different care types varies across jurisdictions



Figure 0.3 Interactions across the ECEC System - Funding



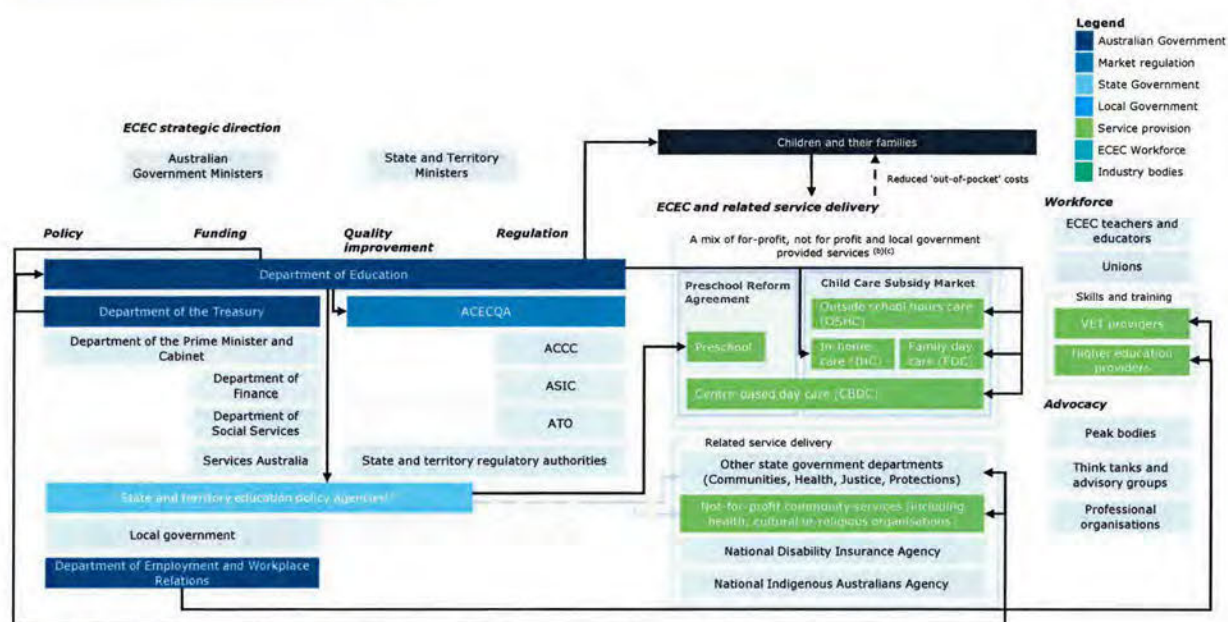
Notes: (a) Not all jurisdictions have separate Education Policy Agencies and Regulatory Authorities.

For example, in NSW the Department of Education is both the policy agency and the regulatory authority. In WA, the education policy agency is the Department of Education WA, while the regulatory authority is the Department of Communities.

(b) The market share of different care types varies across jurisdictions



Figure 3.4 Illustrative ECEC system - Regulation

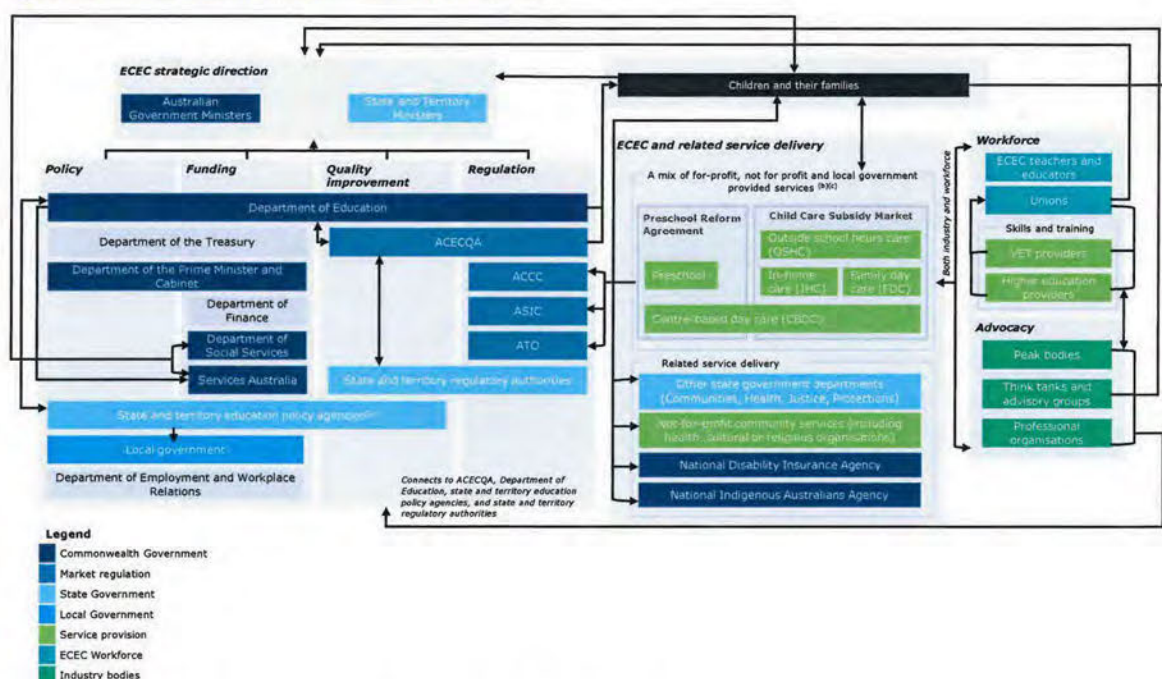


Notes: (a) Not all jurisdictions have separate Education Policy Agencies and Regulatory Authorities. For example, in NSW the Department of Education is both the policy agency and the regulatory authority. In WA, the education policy agency is the Department of Education WA, while the regulatory authority is the Department of Communities.

(b) The market share of different care types varies across jurisdictions



Figure 0.5 Interactions across the ECEC System – Guidance and resources



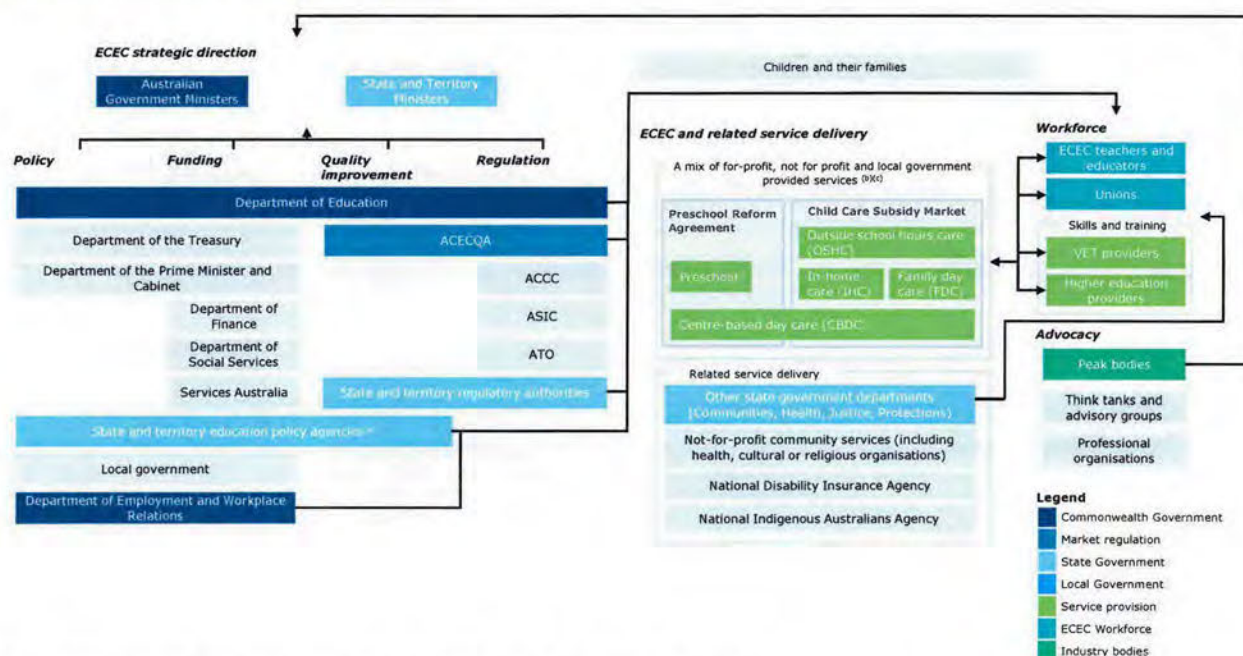
Notes: (a) Not all jurisdictions have separate Education Policy Agencies and Regulatory Authorities.

For example, in NSW the Department of Education is both the policy agency and the regulatory authority. In WA, the education policy agency is the Department of Education WA, while the regulatory authority is the Department of Communities.

(b) The market share of different care types varies across jurisdictions



Figure 0.2 Interactions across the ECE System – Workforce



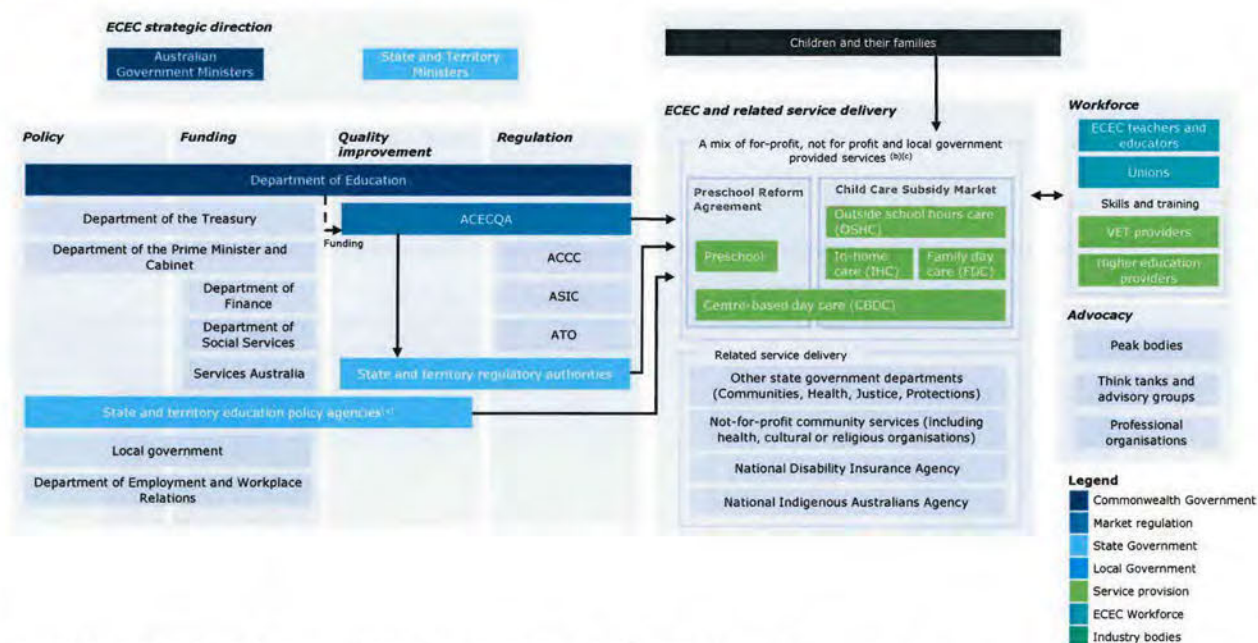
Notes: (a) Not all jurisdictions have separate Education Policy Agencies and Regulatory Authorities.

For example, in NSW the Department of Education is both the policy agency and the regulatory authority. In WA, the education policy agency is the Department of Education WA, while the regulatory authority is the Department of Communities.

(b) The market share of different care types varies across jurisdictions



Figure 0.7 Interactions across the ECEC System - Quality Improvement



Notes: (a) Not all jurisdictions have separate Education Policy Agencies and Regulatory Authorities. For example, in NSW the Department of Education is both the policy agency and the regulatory authority. In WA, the education policy agency is the Department of Education WA, while the regulatory authority is the Department of Communities.

(b) The market share of different care types varies across jurisdictions (see Table 5.2)



Appendix C: Detailed functions of the department

Updated on the 30/10/2022.

This Appendix provides readers with a detailed overview of the functions that each branch within the Early Childhood and Youth Group of the department completes. Importantly, these functions have likely changed since this original exercise was completed in October 2022.

1.1 Detailed functional mapping of the Department of Education Early Childhood and Youth Group

Table 4: Overview of the core functions of the Department of Education's Early Childhood and Youth Group

Department team	Policy and coordination	Funding	Regulation	Information provision	Integration	Service provision
1. Workforce Quality and Preschool Branch						
1a. Early Childhood Quality and Strategy	Manage National Quality Framework Review and Approved Learning Frameworks update. Policy engagement on child care safety, such as serious incident handling and support for vulnerable children. Lead ECV group contributions to policy reforms to support children with disability in early childhood and care, including embedding the Disability Standards for Education in the National Quality Framework and Approved Learning Frameworks.				Liaison and secretariat support for Early Childhood Policy Group. Manage strategic relationship and funding arrangements with ACECQA.	
1b. National Workforce Strategy and ECEC Vision	Lead ECEC vision from National Cabinet to work with States and Territories to develop a long term				Support the implementation of the National Children's Education and Care Workforce Strategy, and	



Department team	Policy and coordination	Funding	Regulation	Information provision	Integration	Service provision
	ECEC Vision for consideration by National Cabinet Supporting and co-ordinating the department's input into the Jobs and Skills Summit white paper				the associated implementation and evaluation plan	
1c. Preschool Implementation and Performance	Development and negotiation of annual bilateral implementation plans with states and territories Development and implementation of enrolment and attendance reforms (including preschool performance framework), including bilateral engagement on core elements	Administration of payments to states/territories under the Preschool Reform Agreement (PRA)		Responsible for preschool data policy and lead oversight regarding preschool related data (VBFS methodology, preschool data sharing arrangements, projects on students with disability and CALD, attendance patterns) Policy lead on sharing of data with states and territories and relationship management with ABS to support the PRA	Bilateral engagement on core elements of enrolment and attendance reforms	
1d. Preschool Policy Outcomes and Strategy	General preschool policy lead, including Closing the Gap and Indigenous issues; 3 YO preschool; V&D preschool; International including OECD and G20 Manage the Preschool Outcomes Measure under the PRA and support the Preschool Outcomes Measure Expert Advisory Group				Management of forward work agenda and strategic oversight of department's interaction with states and territories on PRA reforms Relationship management with states and territories	
1e. Workforce Strategic Policy	Contributes to national skilled migration policy matters, including the skilled occupation list and BIRO Workforce strategic policy and planning, including maintaining ECEC Workforce Evidence Base Engage with external stakeholders and provide policy advice on ECEC workforce initiatives				Monitoring, understanding and advocate linkages to HERN, Schools, Skills, Employment, Closing the Gap, and Health's existing and new policy initiatives that relate to the ECEC workforce	

2. Early Learning and Indigenous Priorities Branch



Department team	Policy and coordination	Funding	Regulation	Information provision	Integration	Service provision
2a. Connected Beginnings	<p>Manage the operational matters of the implementation and expansion of the Connected Beginnings program to achieve integration of early childhood services in identified locations.</p> <p>Engaged SNAICC as the Community Partner for the program to lead local engagement with First Nations communities, stakeholders, and services to support the establishment of new sites and the ongoing implementation of community-led and culturally safe early childhood projects.</p>	Administration of program expenses and management of site grant agreements.			<p>Manage links with other Place-based Initiatives, State and Territory governments, Commonwealth departments (Health, DSS, NIAA and Infrastructure) and other key First Nations stakeholders and philanthropy groups.</p> <p>Supports access to ECEC, as well as maternal and child health, and family support services in selected communities to ensure First Nations children are ready to thrive at school.</p>	<p>Supports First Nations children and their families to access ECEC services through the Connected Beginnings program.</p> <p>Works with local ECEC providers and other services and programs within communities to make sure they have the information and support needed to ensure culturally safe services are in place.</p>
2b. Early Learning and Development Policy	<p>Co-lead with DSS the development of a whole-of-government strategy to better integrate early years policy/funding across the Commonwealth.</p> <p>Drives evidence based ECEC policy advice and innovation for children experiencing vulnerability and/or disadvantage, leveraging insights to increase policy targets.</p> <p>Coordinate advice on early learning and development policies and programs across the department and with other Commonwealth agencies and external stakeholders.</p> <p>Coordinate ECEC input and information for international reporting and research purposes (e.g. OECD reports).</p>	<p>Co-lead with DSS the development of a whole-of-government strategy to better integrate early years policy/funding across the Commonwealth.</p> <p>Commission research to develop the ECEC evidence base, in both national and international contexts.</p>		<p>Facilitates data and information sharing with states and territories through ECPG subgroup.</p> <p>Coordinate advice on early learning and development policies and programs across the department and with other Commonwealth agencies and external stakeholders.</p> <p>Coordinate ECEC input and information for international reporting and research purposes (e.g. OECD reports).</p>	<p>Co-lead with DSS the development of a whole-of-government strategy to better integrate early years policy/funding across the Commonwealth.</p> <p>Manage links with states and territories through an ECPG subgroup focussed on priority cohorts.</p>	
2c. Indigenous Early Learning	Oversees the implementation of cross-portfolio Indigenous strategic policies and programs.					



Department team	Policy and coordination	Funding	Regulation	Information provision	Integration	Service provision
	<p>including the Early Learning Teaching Pilot and an intensive ECEC model trial</p> <p>Leads the ECV group-wide approach to Indigenous engagement and policy development</p> <p>Propose, develop, and deliver Indigenous-specific ECEC policy, research, and projects</p> <p>Working in partnership with First Nations parties, to ensure delivery of culturally responsive ECEC services, supporting First Nations ECEC outcomes in line with Closing the Gap priorities and targets</p>					
2d. Early Childhood Care and Development Policy Partnership	Co-lead the establishment and management of the Early Childhood Care and Development Policy Partnership (Partnership) with the national peak body for Aboriginal and Torres Strait Islander children and families, SNAICC – National Voice for our Children. The Partnership is a formal partnership with all Australian governments and First Nations representatives to co-develop policy initiatives to drive early childhood outcomes for Aboriginal and Torres Strait Islander children and families			Coordinate advice and responses to ensure a joined-up Commonwealth approach to the Partnership, including with the Department of Social Services, Department of Health, National Indigenous Australians Agency, and Attorney General's Department		
3. Access and Inclusion Branch						
3a. Community Child Care Fund Open Special and Reporting	Collaborate with ECEC Strategic Policy on CCCF intersection with VDC and Indigenous policy aspects	Manages Community Child Care Fund (CCCF) competitive grant rounds in conjunction with the Community Grants Hub				



Department team	Policy and coordination	Funding	Regulation	Information provision	Integration	Service provision
		Processes, assesses, offers, and agrees on special circumstances grant applications				
3b. Child Care Community Fund Restricted Expansion		Funds additional high quality, ECEC services, in mainly remote and very remote areas where there is no or limited care available, to engage families and increase ECEC participation and attendance			Works closely with Aboriginal and Torres Strait Islander peak bodies, organisations, services, and communities	Addresses barriers to participation in ECEC, to increase the number of children from vulnerable or disadvantaged communities accessing quality services
3c. Child Care Community Fund Restricted	Manage CCCFR operational policy matters Liaise with state and territory regulatory bodies in relation to CCCFR services, including managing contracts with NT and SA Governments regarding potential future regulation of services	Operates CCCFR program and its funding of identified services through non-competitive grant agreements	Monitor compliance with the Child Care Subsidy Minister's Rules 2017 for services not regulated by state and territory regulatory bodies (S6 services funded through CCCFR)			Work with CCCFR services around issues affecting community engagement with ECEC
3d. ECEC Program Management	Manages Inclusion Support Program and policy Manages In Home Care program and policy Works on policy for broader inclusion, disadvantage, and indigenous issues within other branches in the Early Learning Programs and Youth Division	Funds Inclusion Agencies, Specialist Equipment Libraries, and IDF Subsidies				Manages programs and contracts for various initiatives including In Home Care and Inclusion Support
3e. Youth Policy and Programs					Whole-of-government coordination and support for youth engagement and youth policy	
4. Data and Delivery Support Branch						
4a. Collections and Analytics				Produces the Child Care in Australia quarterly and financial year publication Prepares bespoke data and analysis to inform program and		



Department team	Policy and coordination	Funding	Regulation	Information provision	Integration	Service provision
				<p>policy decisions, provides reporting and assurance on Relief, Transition and Recovery packages</p> <p>Develop data and reporting for the PRA and provision of data to the ABS and states and territories under the PRA</p>		
4b. Infrastructure and Modelling	<p>Working with policy areas, the team is responsible for modelling alternative policy scenarios, identifying key demographic and subsidy impacts to support evidence-based policy decisions.</p> <p>The team also leads changes to the data infrastructure for the Group, including leading work with DEWR to stand up a new ECEC Data Analytics Platform.</p>			<p>Lead the development of curated datasets on key subject areas to improve the Group's capability to respond to data requests, including sharing and integrating child care data, such as the provision of data for the PRA</p> <p>Produces budget estimates and forward estimates model to reflect the latest expectations of future fees, usage, and subsidy levels over the forward years to optimise the allocation of funds and establish priorities</p>	Collaborates with the Group, Services Australia and DEWR to enhance the Child Care Subsidy System data warehousing and reporting and transition to a new data infrastructure	
4c. Programs and Engagement				Manage National Workforce Census as well as procurement and contract management for AEDC 2024, and Survey of Parents and Services 2022-25	Secretariat function for ECECRG	
5. Financial Integrity Branch						
5a. Compliance Operations	Undertakes operational compliance activities, addressing systemic compliance issues through policy and legislative reform		<p>Undertakes operational compliance activities, addressing systemic compliance issues through targeted activities</p> <p>Addresses mid to low level non-compliance and conducts investigations/sanctions services for serious non-compliance</p>		Engages with State Regulatory Authorities on cross-jurisdictional compliance matters	
5b. EFT Gap Fee Implementation	Develop policy to support legislative change and create an audit program to reduce					



Department team	Policy and coordination	Funding	Regulation	Information provision	Integration	Service provision
	fraudulent and non-compliant claims for the CCS					
5c. Fraud Investigations and Tactical Operations			Conducts child care fraud investigations/joint agency operations	Identify fraud vulnerabilities and feedback to program owners to strengthen fraud controls	Engages with other government agencies such as State Regulatory Authorities and Services Australia to identify, investigate, disrupt, and prosecute fraudulent and criminal operations	
5d. Integrity Capability and Engagement				Delivers support to improve payment integrity outcomes through provision of education to providers, sector capacity building, community engagement, strengthening suitability and whole of government activities Delivers projects under the Family Day Care Payment measure including the Suitability Project and Education Project	Engages with other agencies such as the Australian Taxation Office, Services Australia, Commonwealth Fraud Prevention Centres, Australian Criminal Intelligence Commission, NDIS, ACECQA, FDCA and other peak bodies	
5e. Integrity Policy and Governance	Delivers evidence-based integrity policy and advice, monitors program performance, and leads Child Care Financial Integrity strategy and governance					
5f. Intelligence Analytics			Gathers, analyses and processes information to support investigations, and assesses tip-offs for further action	Manages process to bring granular ECEC data across from Services Australia Develops data reports and fraud risk indicator profiles to inform fraud and compliance detection, evaluation, and support		
5g. Provider Approvals	Provides input on approval policy settings and assessments processes		Operates the National Assessment Team which manages and assesses applications for CCS Provider and Service Approval, including service changes of ownership		Liaises with State Regulatory Authorities and leads the Joined Up Approvals project with SRAs and ACECQA	

6. Child Care Markets and Reforms Branch



Department team	Policy and coordination	Funding	Regulation	Information provision	Integration	Service provision
6a. Market Policy	<p>Development of care type advice and ECEC sector research</p> <p>Provision of strategic ECEC market advice and policy advice on ECEC fee settings</p> <p>Provides advice on systemic risk within ECEC markets and mitigations</p>		Monitors financial viability of large providers and systemic risk management	<p>Market monitoring, including collecting and analysis of data on the performance and adequacy of ECEC markets</p> <p>Publishing of fee information and profits of large providers for families</p>	<p>Supports and provides advice for the ACCC's child care price inquiry</p> <p>Leads the partnership with ACECOA for the maintenance and enhancement of the Starting Blocks website</p>	
6b. Child Care Reforms	<p>Leads policy development, implementation, and project management of the Plan for Cheaper Child Care, in close collaboration with Services Australia</p> <p>Provides advice to Government on future policy development as it relates to the Plan for Cheaper Child Care and the CCS, in collaboration with relevant areas of the Child Care Division</p>				Supports the development of the Cheaper Child Care Communications Campaign and working with Strategic Communications to inform a range of communications products	
6c. PC and ACCC Inquiries	Provide policy advice in relation to the CCS Hourly Rate Caps			Facilitate the department's engagement with PC and ACCC inquiries, including provision of data and policy expertise		
7. Child Care Subsidy Policy and Program Branch						
7a. CCS Debt Management	<p>Investigating and coordinating department's remediation of some issues identified in CCS system</p> <p>Leads policy development and management of provider and individual CCS debt and reconciliation, in close collaboration with Services Australia</p>				Lead for collaboration with Services Australia regarding family Child Care debt, including the reconciliation process	



Department team	Policy and coordination	Funding	Regulation	Information provision	Integration	Service provision
7b. CCS Helpdesk and Departmental Contact Centre			Allows parents, providers or their employees, and the general public to raise concerns about practices through the Tip Off line			Provides support to ECEC providers who are having system issues or payment issues through the CCS Helpdesk
7c. Internal Review			Managing and undertaking Internal Review of appealable decisions under the <i>A New Tax System (Family Assistance) (Administration) Act 1999</i>			
7d. Subsidies Business Engagement	Coordination point on behalf of the ECV Group with Services Australia					
7e. Strategic Communication				<p>Leads information and engagement activities for the ECV group</p> <p>Develop materials and tactics to relay important ECEC policy information to ECEC providers, services, and stakeholders</p> <p>Work with colleagues in the Communication and Media branches to reach external audiences; manage media, and support the Minister's office</p> <p>Manage the ECV web pages</p>		
7f. Subsidies	<p>Leads policy and program management for existing Child Care Subsidy and Additional Child Care Subsidy programs</p> <p>Collaborates with Services Australia to lead operational policy and program management for CCS and ACCS</p>					



Appendix D: Detailed literature review on market stewardship

This Appendix provides a detailed overview of the concepts of system and market stewardship, including how they are defined, the key components and functions of stewards, the advantages, and limitations of stewardship approaches, how a stewardship approach can be implemented and an overview of the alternative approaches that can be adopted. This Appendix has been used to help inform the commentary on stewardship in Chapter 1 of the Strategy.

1.1 Stewardship concepts

Simply, **stewardship** can be defined as the assigned responsibility for caring for something valuable, both in the present day and with a view to maintaining value over a longer period.⁷³

System stewardship in a policy context describes an approach to managing complex systems comprising many different actors.⁷⁴ While this Appendix considers system stewardship as it relates to public service delivery and public service markets (see Box 1), the concepts can be applied to non-market, or non-commercial systems which have multiple actors. The literature defines a system steward (often, but not necessarily, a government actor) as holding responsibility for co-ordinating other actors' activities in the system. This is not primarily a policy implementation role, but rather one of oversight, assuming responsibility for actors within the system and intervening where necessary to ensure the intended outcomes of policy are recognised and that the whole system functions as intended.

Market stewardship, also referred to as 'market shaping' or 'market steering', is a subset or form of system stewardship that focuses on the market interactions. A system steward's approach to managing systems could involve establishing a market as a vehicle for public service delivery ('market-making'), while a market steward's remit ('market shaping') involves using market mechanisms to steer a market towards addressing a defined set of goals. Further, a market steward considers how a market can be shaped and revised using market mechanisms to ensure that relevant policy levers are considered in line with real-time market activities, and that the objectives of the system remain forefront and apparent across the market landscape.

Specific definitions of stewardship functions in public service markets vary:

- The Productivity Commission (2017) identified the role of stewardship as ensuring that providers are supported to enter or exit a market and that any **conditions within the market** for service operation exist only to ensure that families are provided with effective positive outcomes.⁷⁵
- The Harper inquiry into competition policy (2014-15) described a steward as **holding responsibility for policy and regulation**, across portfolios and jurisdictions where necessary: *"governments' direct role in human services but also to policies and regulations that bear indirectly on human services sector"*. In the context of this work, this definition might be best understood as relating to a system, rather than a market steward (See Section 1.1).⁷⁶

⁷³ Hamilton, 'Stewardship': buzzword, inkblot, or a new way to delivery human services?, *Parliament of Australia* (2016)

⁷⁴ Gardner et al, Issue paper No 4. How can systems thinking enhance stewardship of public services?, *Public Service Research Group* (2019)

⁷⁵ Australian Government, Productivity Commission Inquiry Report Volume 2, *Productivity Commission* (2014)

⁷⁶ Australian Government, Competition Policy Review – Final Report, *The Treasury* (2015)



- The UK Institute for Government describes system stewardship as **overseeing** how a policy is being adapted within the system and intervening with response strategies as necessary when unforeseen circumstances arise to steer the system back towards the overarching goals of the policy.⁷⁷
- In the World Health Report (2000), stewardship in the context of a health system is referenced as the 'very essence of good government' with the tasks of **providing vision and direction, collecting and reviewing data and imparting mechanisms** such as regulation, considered to be the core components of stewardship.⁷⁸
- Other work identifies the opportunity for stewards to play a key role in the allocation of resources to support the market to leverage private value for public goods.⁷⁹

A common feature of these definitions is that, in contrast to purely market driven or direct delivery policy mechanisms, system stewardship presents a larger role for central governments to create value by establishing and **shaping systems or markets** to support collaboration between consumers, governments, and providers, to deliver social impact.⁸⁰

Box 1: Quasi-markets

The term 'quasi-market' was originally used to describe a set of public service reforms in the 1980s whereby separation between the purchaser and provider of public services occurred alongside the introduction of methods to induce competition between service providers.⁸¹ Since the 1990s governments have transitioned away from providing service providers with a set amount of block funding and have progressed towards market-based arrangements, shifting the responsibilities for service provision from government agencies to providers themselves.⁸²

Operating in public service markets, providers may not have a traditional 'profit-maximising focus', consumers may have decisions made on their behalf and consumers' spending power may be dictated by a 'voucher' or budget (such as a subsidy or entitlement model).⁸³ Quasi-markets exist across a variety of services, including education, healthcare, disability, ECEC and aged care and approaches to managing these markets vary.

1.1 The system and market in Australian ECEC

The Australian ECEC market can be understood as a quasi-market, given that the purchasers' (i.e., families with children) interactions with the service providers (i.e., care types) are influenced and shaped by government intervention in the market (such as through subsidies provided by the Government to providers). In the ECEC context, the 'market' can be understood as the economic interactions between families, ECEC and education providers and Government (Figure C:1). A variety of markets exist including informal social playgroups, support provided by nannies, occasional care supports more formalised care in the form of CBDC, OSHC, FDC and IHC. However, for the purpose of the Strategy, the Australian ECEC market refers only to those supported by the NQF and FAL, including CBDC, OSHC, FDC, IHC.

⁷⁷ Hallsworth, M. System Stewardship: The future of policy making? Working paper, Institute for Government (2011)

⁷⁸ Travis et al, Towards better stewardship: concepts and critical issues, World Health Organisation (2002)

⁷⁹ Gardner et al, Issue paper No 4. How can systems thinking enhance stewardship of public services?, Public Service Research Group (2019)

⁸⁰ Mariana Mazzucatto & Josh Ryan-Collins, "Putting value creation back into "public value": From market-fixing to market-shaping", Institute for Innovation and Public Purpose, UCL (2019)

⁸¹ Institute for government, The development of quasi-markets in secondary education (2012)

⁸² Hamilton, 'Stewardship': buzzword, inkblot, or a new way to delivery human services?, Parliament of Australia (2016)

⁸³ Institute for government, The development of quasi-markets in secondary education, 2012



The primary role of the Australian Government is to support families with the costs of ECEC through the Child Care Subsidy scheme. However, because a mixed market model is the chosen service delivery mechanism, a derivative role for Government as a market steward to ensure sufficient oversight and monitoring of activity in line with Government's objectives, exists. Other components of the ECEC ecosystem – such as the capability of the workforce, or the relationships between ECEC and other public services (e.g., linkages to the healthcare system) are understood to sit outside of the 'market' construct and outside the scope of a market steward's activities.

Figure C.1: Context of ECEC markets



1.2 A market steward's functions

Market stewardship, also referred to in the literature as 'market shaping' or 'market steering', is a form of system stewardship that focuses on a subset of public service markets (see box 1). A market stewardship approach yields an amount of policy lever control however is also influenced by the system stewards design and management of other relevant policy levers such as regulatory frameworks, quality assurance frameworks, workforce management approaches or service delivery.

Similar to a steward in a system stewardship approach, market stewards are responsible for possessing an understanding of the policy environment and the dynamics of the market for which they oversee (and any neighbouring or closely related markets), as well as a reasonable level of financial literacy and commercial understanding.¹ The system steward retains responsibility for detecting changes at a whole-of system level, and directing the market steward to undertake certain activities where necessary to achieve specified policy goals.



Where a primary focus for the market steward is to create the conditions for actors to work towards shared objectives, rather than imposing conditions or leaving market forces to move freely.⁸⁴ By recognising the intersecting roles of the actors at various levels in the system, a market steward will 'steer' the market toward the system objectives by coordinating and aligning the roles and functions of different actors.^{85,86,87}

The UK Institute for Government discusses the role for a market steward in a public service context as seeking to maintain:⁸⁸

- Outcomes for users and citizens: in terms of both price and quality.
- Effective choice (demand): ensuring sufficient funding mechanisms and detailed education and information is available to enable consumers to make well informed decisions and purchase services.
- Effective competition (supply): ensuring that new providers have incentives to enter the market, that competition is vigorous (and accessibility is considered alongside the application of quality assurance mechanisms), that incentives for providers align with the intended market outcomes, and that the impact of providers exiting the market is minimised.

The roles of a market steward listed above could be considered as a set of guiding generic principles that serve as a reference point for the development of market goals to be tailored in line with the context in which they will be applied.

1.3 Components of a market stewardship approach

The Institute for Government discusses the components of stewardship in considerable detail. Within the presented literature they are often used as a guiding point of information from which other sources draw upon and extend the application of information to varying degrees across differing contexts.⁸⁹ The components of stewardship as defined by the Institute for Government, when considered collectively, provide a guiding framework through which a stewardship approach can be developed, noting that the system and policy context will influence the specific approach.⁹⁰ Further detail on each of the four key components is provided below:⁹¹

- The **design** of clear and well-defined goals for the system which consider both the complexity of the system and its intended outcomes.
- The **definition** of roles, responsibilities, and boundaries for each actor within the system, considering the levels of risk present.
- Monitoring, or **detecting**, the outcomes from policy as it is implemented by each system actor, ensuring that progress towards defined goals is clearly assessed.
- **Directing** the system as required, through market and non-market interventions, to shape and steer the activities occurring within system to align with the overarching goals (the design).

While a stewardship model includes the four components outlined above, it is not essential for one central actor to be responsible for overseeing all aspects of a system. Rather, the system and policy conditions will dictate the level of responsibility which a system steward possesses, as well as the level of responsibility retained by other actors.

⁸⁴ NSW Treasury, A Quadruple Aim for system stewardship: How can we tell if we are effective system stewards? (2021)

⁸⁵ Gash et al, Making public service markets work: professionalising government's approach to commissioning and market stewardship, *Institute for Government* (2012)

⁸⁶ Malbon et al, Stewardship Actions for Market issues in the National Disability Insurance Scheme: A review of the evidence, *Evidence base* (2019)

⁸⁷ Needham et al, Market shaping and personalisation in social care: A realist synthesis of the literature, *University of Birmingham* (2018)

⁸⁸ Gash et al, Making public service markets work: professionalising government's approach to commissioning and market stewardship, *Institute for Government* (2012)

⁸⁹ Hallsworth, M., System Stewardship: The future of policy making? Working paper, *Institute for Government* (2011)

⁹⁰ Ibid

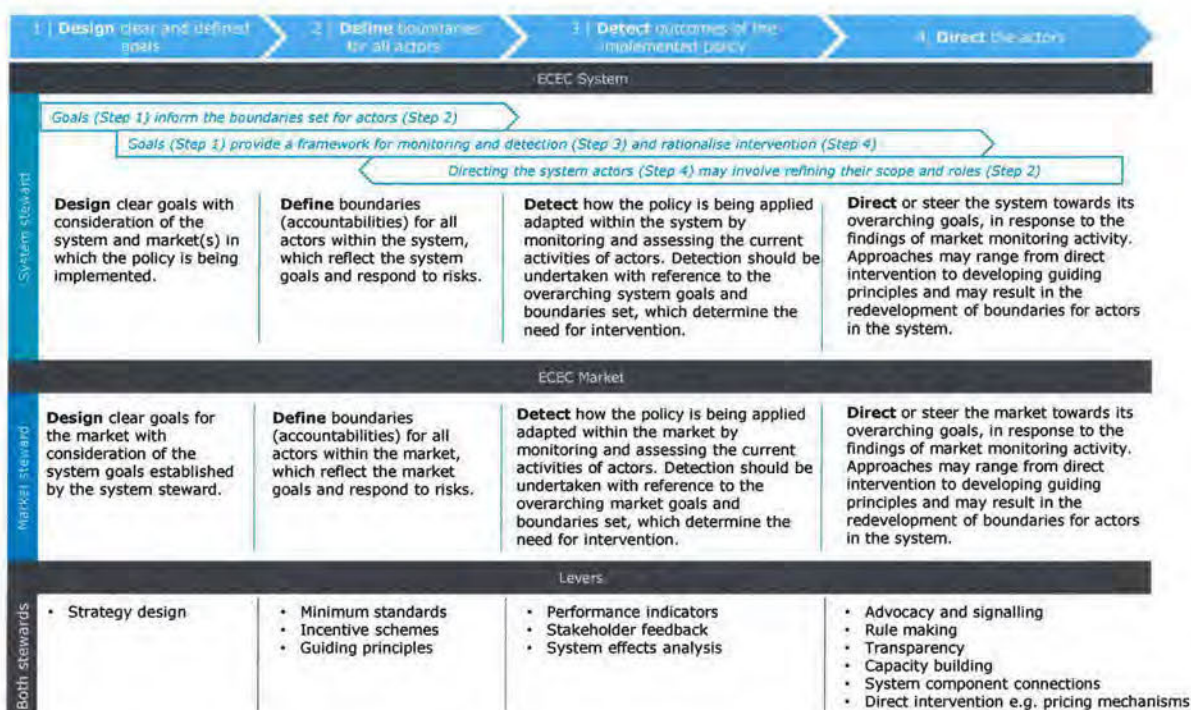
⁹¹ Ibid



Importantly, the functions of a system steward might be shared across different system actors and the roles and responsibilities of an actor may at times be 'fluid' in nature. Market stewardship therefore requires a set of commercial/economic skills and capabilities which may be different from the strategic policy capabilities deployed by a system steward. The role of directing actors outside of markets is considered to lie beyond the horizon of the market steward's remit and therefore this responsibility remains with the system steward.

The framework provided in Figure D:2 might also reflect the scope and responsibilities of a market steward: to **design** market goals, **define** responsibilities for different market actors, **detect** changes in the market and **direct** market activity toward the market goals. As detailed above, a system steward's remit in overseeing the system as a whole as well as the inherent design of the system will influence a market steward's scope. A market steward plays a key role in ensuring that the market goals and activity are aligned with the system goals. Therefore, a market steward's scope may be more focused in the latter two domains - **detecting** changes in the market (through market monitoring) and **directing** market activity toward the market goals (using market interventions).

Figure D:2. Four components of system stewardship



Source: Adapted from Hallsworth et al (2011)

1.4 Activities undertaken by a market steward

The functions of a market steward in undertaking the roles described in Figure C:2 sit on a spectrum ranging from market facilitation (least interventionist) to market shaping/steering (moderate level of intervention) up to direct market intervention (most interventionist). Non-market-based intervention approaches may supplement market intervention activities or be deployed solely, possessing a vital role in cases of no prior success with the market-based intervention.



Table C:1 outlines the aims of stewards in public service markets and the market interventions they may undertake to support these.

Table C:1 Examples of aims and actions of a market steward

Goals of a public service market ⁹²	Market steward(s) actions
Informed choice and decision making for families	Increase transparency of providers within market and their service offerings, e.g. publish ratings of providers. Support the development and implementation of communication platforms to deliver information to families. Establish stakeholder feedback loops to drive market shaping activities.
Sustained availability of sufficient funding	Monitor service prices and user activity through data collection and analysis. Intervene with pricing mechanisms. Support delivery of funding that is equitable in access.
Maintenance of effective competition between providers	Undertake market scanning and monitoring activities to understand the current players in the market as well as the share of the market occupied by providers. Deploy incentive schemes for providers. Dedicated funding schemes to encourage innovation and novel service delivery.
Removal of barriers to market entry and exit	Engage with providers and families in the market to understand contextual implications. ⁹³ Advocate for changes across legal, ethical and administrative realms.

Source: Adapted from Gash et al (2012) and other literature (see citations)

The rationales for implementing a stewardship model, which can be identified in publicly available information, tend to relate to the potential for a steward to improve coordination and connectedness of public services provision. This objective is enabled through sub-goals including those relating to *choice*, *access*, and *competition*, which appear in Table D:1. While later sections of this Appendix speak to the potential advantages of a stewardship model in practice, the recommendations of the Aged Care Royal Commission provide a case study example of the potential role for system stewardship in another Australian public service market (see below).

1.5 Advantages and limitations of a market stewardship approach

In certain circumstances, a market-based approach to delivering public services can be more efficient, effective, and innovative than if the same services were delivered via a centralised government-based approach.⁹⁴ This is because markets provide families with enhanced choice for services by encouraging competition between providers.⁹⁵ This competition between providers may result in lower costs for families as well as a greater diversity of services offered (through product differentiation).

⁹² Ibid.

⁹³ Gash, T, Panchamia, N, Sims, S & Hotson, L, Making public service markets work: professionalising government's approach to commissioning and market stewardship, *Institute for Government* (2012).

⁹⁴ Girth et al, "Outsourcing Public Service Delivery: Management Responses in Non-competitive Markets", *Public Administration Review*, (2012)

⁹⁵ Institute for Government, *Public Service Markets – A practical guide* <<https://www.instituteforgovernment.org.uk/publication/what-market-stewardship>



Where a market steward has sufficient market intelligence and capacity to influence the market, the approach may provide a more coherent and coordinated model of managing the complexities present in public service markets, compared to a market where there is no intervention.⁹⁶ Central governments should attempt to intervene minimally in public service markets as to limit the influence over market activity and subsequent lost efficiency gains, however the opportunity for government to intervene as necessary to ensure that market is directed to deliver the social policy goals intended should exist alongside an assigned market steward role.

There remain practical limitations of a market stewardship approach. For a market stewardship approach to be successful, timely (and likely costly) investment into resources and capabilities, spanning across economic, commercial, and strategic policy domains is required. Additionally, a stewardship approach requires robust, accurate and timely information to inform iterative policy development and processes, ensuring system gaming does not arise. Further, there exists the risk that government interventions are not sufficiently responsive to changing market conditions and constrain the market.

Table D:2 sets out the potential advantages and limitations of a market stewardship model, with respect to the six functions of a system steward which are adapted from the Institute of Government (2011).^{97,98} The NDIS Case study provides an example of the advantages and limitations of a stewardship model in practice, with reference to the specific features of the market and preconditions for effective stewardship.

Table D:2: Advantages and limitations of market stewardship

Stewardship functions	Advantages	Disadvantages
Assigned roles and responsibilities for the steward	<ul style="list-style-type: none"> • Coherent and enhanced coordination of ECEC system components. • Improved role satisfaction and enhanced skill development for assigned stewards. • Defined accountability for market performance, improving system functioning and responsiveness. 	<ul style="list-style-type: none"> • Administrative burden for nominated personnel responsible for oversight of stewards. • Requirement for assignment to the party most suited, with potential for inefficient or ineffective stewardship in instances of misassignment. • Most effective assignment may be contrary to political, legal and administrative constraints.
Design of clear goals to shape and direct market activity to align with the broader system and its objectives ^(a)	<ul style="list-style-type: none"> • Enhanced capacity to satisfy overarching objectives of the system. • Market activity considered in line with broader system goals such as accessibility, quality and equity. Collaborative partnership building between actors within the ECEC system. • Coordinated functioning through aligned performance in markets with the broader system. 	<ul style="list-style-type: none"> • Pre-defined goals may hinder market evolution in line with economic efficiency. • If a co-steward approach is deployed, there exists potential for discordance in achievement of system goals as differing goals are set for the various markets present.
Regular consultation and engagement with actors (e.g., consumers, providers and other parties) within the market	<ul style="list-style-type: none"> • Identification of market influencing factors, for example, supply and demand drivers. • Real time monitoring of consumer needs and preferences to drive chosen market mechanisms. • Identification of opportunities for improvement and reform in the market and system. 	<ul style="list-style-type: none"> • Time and resource intensive for assigned steward. • Market actors may feel influenced to deliver a 'preferred' response during consultations, removing the opportunity to ascertain true preferences and needs.

⁹⁶ Needham et al, Market shaping and personalisation in social care: A realist synthesis of the literature, *University of Birmingham* (2018)

⁹⁷ Hallsworth, M, System Stewardship: The future of policy making? Working paper, *Institute for Government* (2011)

⁹⁸ Gash, T, Panchamia, N, Sims, S & Hotson, L, Making public service markets work: professionalising government's approach to commissioning and market stewardship, *Institute for Government* (2012)



Stewardship functions	Advantages	Disadvantages
Define 'rules' to shape and direct activity to align with both market and system goals	<ul style="list-style-type: none"> Assigned responsibility to market/system actors, driving increased quality and comprehensiveness of provided services. Dedicated framework to monitor market activities against. Support provider competition and encourage innovation. 	<ul style="list-style-type: none"> Constrains market activity by restricting provider and consumer behaviour. Potential for thin market development if 'rules' are too prescriptive. Potential for providers exiting and limited new provider entry if rules are not conducive to business.
Monitoring and/or detecting activity occurring alongside a horizon scan to identify any emerging issues within the market	<ul style="list-style-type: none"> Accountability for alignment of market activity with whole of system objectives and functioning. Reliable and informed data collection. Improvement and investment opportunity identification. 	<ul style="list-style-type: none"> Time and resource intensive for assigned steward. If steward not appropriately skilled/supported, then exists potential for incomplete identification of issues present and/or emerging.
Development of market and non-market mechanisms to direct activity, as required, to align with specified goals and 'rules'	<ul style="list-style-type: none"> Improved market performance. Rapid address of identified issues present/arising. Achievement of defined market and system goals. Reduced likelihood of long periods of inactivity, which can result in market inefficiency and potential failures.⁹⁹ 	<ul style="list-style-type: none"> Dependent on deployed mechanism, exists potential for market activity uncertainty to arise. Potential for thin market development if 'rules' are too prescriptive. Potential for provider exiting and limited new provider entry.

Notes: (a) While the literature does not stipulate that a market steward's role involves the formation of clear and defined goals, a market steward may develop market-level goals which map to the system objectives as part of a market monitoring framework.

1.7 Implementing a market stewardship approach

Market stewardship offers a solution to balance market intervention and system responsiveness by positioning a key agency to support policy implementation and address complex problems as they arise. However, for a market stewardship approach to be effective (i.e., for a market steward to be able to perform the aspects of their role competently), a set of supporting conditions is required.

Table D:3 summarises the available literature surrounding the practical implementation of a market stewardship approach and provides a framework to articulate the circumstances in which a stewardship model may or may not be feasible. While the stewardship functions might be shared by several system actors in a co-stewardship model the complete set of supporting conditions as listed in Table D:3 must exist to ensure a stewardship model is feasible.

Table D:3 Conditions necessary to support the implementation of market stewardship

Necessary conditions	Implications
A defined market A current or emerging public service market requiring activity oversight exists.	<ul style="list-style-type: none"> ✓ The public service market should be appropriately distinguished from the broader system which is supports. ✓ The rationale for a market steward should stem from a clear set of market goals, which can be derived through review of the broader aims of the system that houses the market, market data analysis, and consultation with actors within the broader system.

⁹⁹ Gash et al, Making public service markets work: professionalising government's approach to commissioning and market stewardship, *Institute for Government* (2012)



Necessary conditions	Implications
Coordination, not control Understanding that a stewardship approach does not involve exerting direct control over service provision.	<ul style="list-style-type: none"> ✓ The market steward's scope and responsibilities must be clearly defined, and appropriately distinguished from the system steward's scope and responsibilities. ✓ The market steward must recognise that it does not directly control service provision, but rather uses mechanisms to direct activity within the market to support providers to deliver services.
Well-defined responsibilities Capacity to meticulously identify and assign roles and responsibilities to market steward(s).	<ul style="list-style-type: none"> ✓ The agencies most suited to undertaking each stewardship function must be identified. Clear responsibilities must be assigned with reference to each market actor's capabilities (across domains including economic, financial, and subject matter expertise and practical experience). Consideration of the accountability requirements associated with assigned roles and responsibilities must also be given as to reduce potential for uncertainty.
Market monitoring Adequate market monitoring tools are required to inform the steward(s) activities.	<ul style="list-style-type: none"> ✓ Sufficient data collection infrastructure and analysis capability (such as data collection and reporting systems, stakeholder consultation capacity and education and training in data analysis) is required to support the collection and analysis of information about the market and to inform market steering activity.
Capacity to steward Embedded interconnected support networks to build capacity and capability in assigned market steward(s).	<ul style="list-style-type: none"> ✓ Once a steward is identified, it is critical to ensure the agency has sufficient capability, knowledge and networks to allow it to comprehensively act as a steward.

Source: Adapted from Hallsworth (2011), Gash et al (2012).^{100, 101}

1.8 Alternative and supporting approaches to market stewardship

Market stewardship can be considered as distinct from other theories and approaches that direct the leadership and operations of public service markets. However, there also exists opportunity to integrate components of present operating approaches with the principles of market stewardship.

For instance, a **commissioning** model allows the market steward to directly intervene to address market failures. In some markets, governments may take a **co-stewardship** approach, recognising that not all market functions can be centrally coordinated. The principles of **systems leadership** and **human learning systems** can provide a framework to navigate shared responsibilities. These opportunities are discussed in further detail below.

Commissioning

Commissioning is the process of assessing user need, designing the required services, and acquiring or developing the mechanism to deliver the services.¹⁰² This is considered a more interventionist option than a market stewardship approach. Where a commissioning model involves specifically designing services to meet user needs, a stewardship model shapes or incentivises actors to deliver a market solution to user needs.

¹⁰⁰ Hallsworth, M, System Stewardship: The future of policy making? Working paper, *Institute for Government* (2011)

¹⁰¹ Gash et al, Making public service markets work: professionalising government's approach to commissioning and market stewardship, *Institute for Government* (2012)

¹⁰² Gash et al, Making public service markets work: professionalising government's approach to commissioning and market stewardship, *Institute for Government* (2012)



Commissioning can be understood as a tool available for use by a system and/or market steward to supplement activities and address identified market failures. Alternatively, a commissioning approach may be deployed instead of a market approach where it is more efficient or effective to do so with regard to the social policy objectives Government is seeking to achieve. For example, a market or system steward may commission service provision in thin markets. A commissioning model may involve interaction between the public sector, consumers and in some contexts, private and non-government organisations, to enable solutions to market failure.¹⁰³

Co-stewardship

A co-stewardship model involves the allocation of specific responsibilities across different system actors.¹⁰⁴ This may be appropriate in circumstances where a single steward is unable to undertake the entirety of functions required or where there are specific market structures which limit the opportunity for a single steward to take on all responsibilities within a market. A co-stewardship approach can enable comprehensive coverage of the markets through a clear delineation of roles and responsibilities.¹⁰⁵ However, potential limitations of this approach include a higher administrative burden associated with the coordination of multiple stewards, as well as the risk of discordance within the system due to stewards possessing a level of autonomy over the management of activities in their assigned markets.

Systems leadership

Systems leadership, built on concepts of systems thinking, is considered a collective approach to leadership, whereby the responsibility for enacting change is placed not on a single individual but on multiple leaders across all levels within related systems. Systems leadership involves a set of values and a specified way of thinking about the role of leadership within a system. Rather than possessing a specific set of technical skills, systems leaders play a larger role in identifying others within systems more suitable to action necessary changes. This approach reflects the principle that public services can be enhanced in quality and efficiency when component parts of related systems interact and intersect.¹⁰⁶ The literature notes that systems leadership is a particularly effective in managing volatility, uncertainty, and complexity, especially when considered against traditional linear problem-solving approaches.¹⁰⁷

Unlike market stewardship, systems leadership is not a targeted effort to establish goals and simultaneously develop a playbook of methods and tools that guide activity towards goal achievement within a single market. But rather, the approach is a way of directing individual leaders to holistically think about their approach to leadership in the system and to cross organisational boundaries and influence change across parts of multiple systems. There exist opportunities for the fundamental guiding principles of systems leadership to be incorporated within market stewardship, grounding the approach in proven effective theory, and strengthening outcome potential.

Human learning systems

The Human Learning Systems (HLS) approach, through responsive and adaptive mechanisms grounded in acknowledgement of the complexities in a system, seeks to develop methods that are responsive to the needs of people accessing public services.¹⁰⁸ HLS offers under an overarching framework informed by complexity informed management theory, a common language and

¹⁰³ NSW Treasury, *Policy & Guidelines Paper, NSW Government Commissioning and contestability policy*, (2016)

¹⁰⁴ Hallsworth, M, *System Stewardship: The future of policy making?* Working paper, *Institute for Government* (2011)

¹⁰⁵ *Ibid.*

¹⁰⁶ Ghate, D, Lewis, J, Welbourn, D, *Systems leadership: exceptional leadership for exceptional times*, *The Colebrooke Centre* (2013)

¹⁰⁷ Ghate, D, Lewis, J, Welbourn, D, *Systems leadership: exceptional leadership for exceptional times*, *The Colebrooke Centre* (2013)

¹⁰⁸ Lowe et al, *New development: responding to complexity in public services – the human learning systems approach*, *Public Money & Management* (2020)



approach that can be shared among both public and non-public sectors.¹⁰⁹ There are three core components of an HLS approach:

- The human element which emphasises the importance of embedding within the system approaches that capture the needs of the people to which it was designed to benefit.
- The learning element that recognises the essential need for learning to be a central focus of management with frequent experimentation to respond to identified problems and solve future issues.
- The system element which pertains to the notion of incorporating 'system stewardship' to ensure the efficient and effective organisation of the system to generate outcomes that satisfy specific goals.

A market stewardship approach uses market monitoring to inform the allocation of roles and responsibilities among market actors. Similarly, the HLS model recognises the importance of adopting an interactive assessment and solution implementation response to market issues, to support market operations and achieve system goals. A key difference is that a market stewardship approach does not emphasise the importance of embedding learning opportunities for the leaders of the public service market to equip them with the capabilities to learn and respond to issues as they arise in meaningful and pragmatic ways. As such, there may be opportunity integrate principles of HLS to strengthen a market stewardship approach.

¹⁰⁹ Lowe et al, New development: responding to complexity in public services – the human learning systems approach, *Public Money & Management* (2020)



Appendix E: International approaches to market management

This Appendix presents international examples of different approaches to market management, which provide a point of comparison for Australia's market management approach and system outcomes. In turn, these points of comparison provide one input into the development of the opportunities presented in Chapter 3 of the Strategy. There are four dimensions explored in detail: funding model design, market regulation, expenditure, and administration.¹¹⁰

1.1 Funding model design

Countries differ substantially based on the **scope of universal access** to ECEC and the extent to which government support is **means-tested**. Typically, universal access is provided for preschool equivalent services, while government support for child care tends to be means-tested. Countries like France and Iceland rely heavily on universal support for children aged 3-4. In France, all children can access 24 hours of preschool per week for free, while in Iceland substantial subsidies cover the majority of preschool costs for all children.

In contrast, the United Kingdom (UK) uses a mix of some universal demand side subsidies and targeted support for children from low-income families.¹¹¹ All British families can receive fifteen hours of free ECEC a week for children aged 3 to 4.¹¹² However, only low-income families can access additional entitlements including an additional 15 hours of free ECEC for children aged 3 and 4, 15 free hours ECEC for children aged 2 and a means tested ECEC subsidy.¹¹³

As shown in Table E.1, Australia also uses a combination of universal and means-tested support, with 15 hours of funded preschool available for 4-year-olds and an income-dependent childcare subsidy.

Table E.1: Funding model design for children aged 3-5

Country	Age 0-2	Age 3	Age 4	Age 5
Australia	<ul style="list-style-type: none"> Care types funded under the CCS (means-tested) 	<ul style="list-style-type: none"> Care types funded under the CCS (means-tested) 	<ul style="list-style-type: none"> 15 hours (universal access) funded under the PRA Care types funded under the CCS (means-tested) 	<ul style="list-style-type: none"> 15 hours (universal access) funded under the PRA Care types funded under the CCS (means-tested)
United Kingdom	<ul style="list-style-type: none"> 15 hours (means-tested) for children aged 2 Subsidies from the Government (means-tested) 	<ul style="list-style-type: none"> 15 hours (universal access) 15 hours (means-tested subsidy) Subsidies from the Government (means-tested) 	<ul style="list-style-type: none"> 15 hours (universal access) 15 hours (means-tested subsidy) Subsidies from the Government (means-tested) 	<ul style="list-style-type: none"> Children start school.

¹¹⁰ Productivity Commission, 'Appendix G International approaches: Child care and early learning,' (2015) <<https://www.pc.gov.au/inquiries/completed/child-care/report>>.

¹¹¹ Ibid.

¹¹² Ibid.

¹¹³ <https://post.parliament.uk/research-briefings/post-on-0649/>



New Zealand	<ul style="list-style-type: none"> • Subsidies from the Government (means-tested) 	<ul style="list-style-type: none"> • 20 hours ages 3-5 (universal access) • Subsidies from the Government (means-tested) 	<ul style="list-style-type: none"> • 20 hours ages 3-5 (universal access) • Subsidies from the Government (means-tested) 	<ul style="list-style-type: none"> • 20 hours ages 3-5 (universal access) • Subsidies from the Government (means-tested)
Ontario (Canada)	<ul style="list-style-type: none"> • Subsidies from the provincial government (means-tested) • \$10-a-day child care (by 2026) 	<ul style="list-style-type: none"> • Subsidies from provincial government (means-tested) • \$10-a-day child care (by 2026) 	<ul style="list-style-type: none"> • 30 hours (universal access) • Subsidies from the provincial government (means-tested) 	<ul style="list-style-type: none"> • 30 hours (universal access) • Subsidies from the provincial government (means-tested)
France	<ul style="list-style-type: none"> • Subsidies from local authorities (means-tested) 	<ul style="list-style-type: none"> • 24 hours (universal access) 	<ul style="list-style-type: none"> • 24 hours (universal access) 	<ul style="list-style-type: none"> • 24 hours (universal access)
Iceland	<ul style="list-style-type: none"> • Subsidies from municipalities (some means-testing) 	<ul style="list-style-type: none"> • Subsidies from municipalities (some means-testing) 	<ul style="list-style-type: none"> • Subsidies from municipalities (some means-testing) 	<ul style="list-style-type: none"> • Subsidies from municipalities (some means-testing)

1.2 Market regulation

While some governments depend on **child care markets to deliver ECEC**, others provide services **directly**. Market driven systems are typified by private provision and less taxpayer funding.¹¹⁴ On this side of the spectrum are countries such as the UK. In the UK, over 61% of group-based providers are private, with public provision largely targeted to low-income families.¹¹⁵ Private provision is particularly dominant amongst services offered to children aged 0-3, with only one third of 3-year-olds receiving care from public providers.¹¹⁶

On the other side of the spectrum, countries such as France and Sweden do not rely on private markets to deliver ECEC services and instead provide them directly. Children in France are entitled to attend preschool from at ages 3 to 5 and their ECEC system is characterised by universal access, government provision and free-of-charge schooling.¹¹⁷ Preschools are owned and managed by French municipalities with staff paid by the French Government.

As shown in Table E.2, Australia relies substantially on the market to deliver ECEC places, particularly to younger children. As such, its ECEC system is more similar to the UK's than to ECEC delivery in France or Iceland.

Table E.2 Degree of privatisation

Country	Degree of privatisation		
	Age 3	Age 4	Age 5
Australia	Medium	Medium	Low
United Kingdom	High	Medium	In school
New Zealand	Medium	Medium	Low

¹¹⁴ Productivity Commission, 'Appendix G International approaches: Child care and early learning,' (2015) <<https://www.pc.gov.au/inquiries/completed/child-care/report>>.

¹¹⁵ Department of Education, 'Survey of Child care and Early Year Providers: Main Summary, England, 2019,' (2019) <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1039532/Survey_of_Child_care_and_Early_Years_Providers_2019_revised_Dec_2021.pdf>.

¹¹⁶ <<https://post.parliament.uk/research-briefings/post-pn-0649/>>

¹¹⁷ Productivity Commission, 'Appendix G International approaches: Child care and early learning,' (2015) <<https://www.pc.gov.au/inquiries/completed/child-care/report>>.



Canada	High	Medium	Low
France	Extremely low	Extremely Low	Extremely Low
Iceland	Low	Low	Extremely Low

Australia – Private-for-profit providers now account for 50 per cent of ECEC service ownership, with just 11% provided directly by government and the remaining 39 per cent by not-for-profit services.¹¹⁸

UK – Large private-for-profit chains provide 53 per cent of places in the UK childcare market. Only 7 per cent of places are delivered by not-for-profit providers. In England, only 14 per cent of eligible 2-year-olds and 35 per cent of 3-year-olds attended public ECEC services, compared to 78 per cent of 4-year-olds.¹¹⁹

NZ – In 2018, 69 per cent of all ECEC centres were privately owned.¹²⁰

Canada – The portion of provision that is private varies enormously across the country – in Newfoundland and Labrador 70 per cent of regulated childcare spaces are for-profit, but in Quebec that figure is only 20 per cent.¹²¹

France – In France, all 3–5-year-olds must attend public preschools.¹²²

Iceland – Most ECEC services (83 per cent of centres and enrolments) are provided publicly by municipalities.¹²³ There are also a few private preschools (owned and operated by not-profit organisations or limited companies).

Case study

Market regulation in Canada

Prior to the introduction of a national plan in 2021, Ontario had a market system, characterised by high levels of private provision, a lack of price controls and few taxpayer subsidies. Despite efforts to promote competition among providers, Ontario consistently had some of the highest child care fees in the country. In contrast, the provincial government of Quebec engaged in high levels of direct provision, price regulation and subsidisation. In 2021, the Federal Government of Canada announced the introduction of a national ECEC system based on the Quebec model, reflecting Quebec's success in achieving its market goals of affordability and access. The differing levels of market intervention adopted by these provincial governments may inform the approaches considered by the department in ECEC. In particular, the department may consider how these models balance the objectives of affordability, access and fiscal sustainability.

1.3 Expenditure

The degree to which governments across the globe **financially support** their ECEC sector varies significantly. In 2018, total public spending expenditure on ECEC exceeded one percent of GDP in Estonia (1.07), Chile (1.0) and the Nordic countries, including Iceland (1.57).¹²⁴ By comparison, governments in countries like UK (0.25) spent less than 0.5 per cent of their GDP.¹²⁵

¹¹⁸ Matt Grudnoff, 'Economic Benefits of ECEC in Australia' (2022) Centre for Future of Work at the Australia Institute (Canberra, Australia)

¹¹⁹ Department of Education, 'Education provision: children under 5 years of age, January 2019' (2019) <<https://www.gov.uk/government/statistics/education-provision-children-under-5-years-of-age-january-2019>>.

¹²⁰ Turning The Tide on Private Profit-Focused Provision In Early Childhood Education

¹²¹ Early Childhood Education and Care in Canada, 2019 by Childcare Resource and Research Unit, 2021

¹²² <https://www.oecd.org/education/school/ECECMN-France.pdf>

¹²³ <https://education-profiles.org/europe-and-northern-america/iceland/~non-state-actors-in-education>

¹²⁴ <https://data.oecd.org/eduresource/education-spending.htm#indicator-chart>

¹²⁵ <https://data.oecd.org/eduresource/education-spending.htm#indicator-chart>



As shown in Chart E.1, Australia's ECEC spend was estimated at 0.37 per cent of GDP, substantially below OECD average of 0.71 per cent.¹²⁶

Chart E.1: Public expenditure on ECEC as a percentage of GDP, 2018

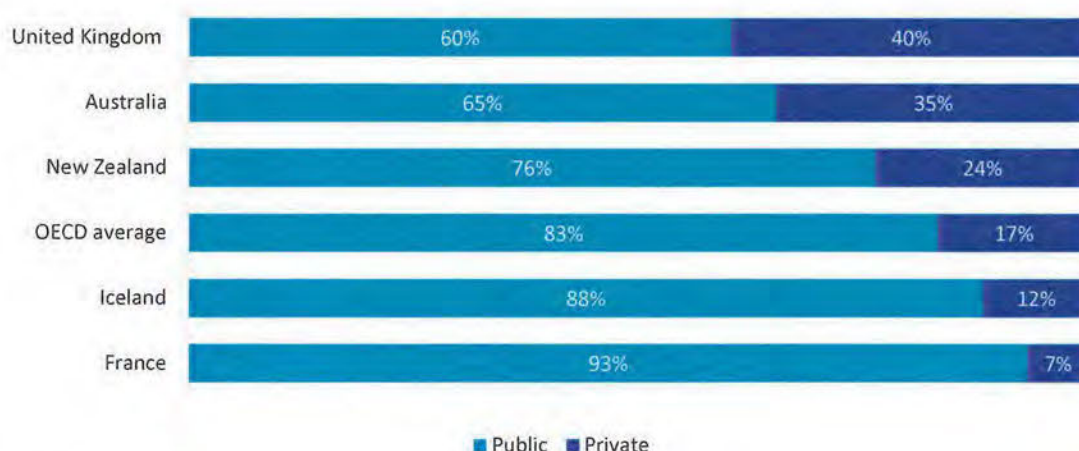


Source: OECD, 2018

In countries where public expenditure on ECEC is low, private spending generally makes up a larger share of total ECEC expenditure (Chart E.2). For example, the UK has both the lowest public expenditure on ECEC as a percentage of GDP (only 0.25 per cent) and the highest share of private expenditure (40 per cent of total expenditure). However, this principle does not hold true in all cases – for instance, public expenditure on ECEC in Iceland is nearly double that of France, but France has a lower share of private spending (only 7 per cent of total expenditure, compared to Iceland's 12 per cent). This reflects that private and total spending in Iceland on ECEC is significantly larger than such spending in France.

Australia has a relatively high share of private spending on ECEC; 35 per cent of total expenditure is private.¹²⁷ This is well above the OECD average of 17 per cent.

Chart E.2: Public vs Private expenditure in ECEC



Source: OECD, 2018

¹²⁶ <https://data.oecd.org/eduresource/education-spending.htm#indicator-chart>

¹²⁷ OECD, 'Spending on education' (2018) <<https://data.oecd.org/eduresource/private-spending-on-education.htm#indicator-chart>>.



1.4 Administration

Countries differ in how their ECEC systems are organised and administered, including whether the system is centralised at a federal national level. Only about half of the OECD countries have federally nationally centralised ECEC services, whereby there is an administrative authority in charge of the whole ECEC system. One example of an ECEC sector with minimal central national government oversight is Canada. In Canada, child care is primarily the responsibility of provincial and territorial governments. For more information, see the case study on Canada.

In contrast, New Zealand has a centralised ECEC system, whereby the Ministry of Education – a federal national body – acts as a market steward for the entire sector.

Case study

New Zealand's stewardship approach

The Ministry of Education in New Zealand (the Ministry) transitioned to a system stewardship approach in 2013/2014, following recognition of the enhanced educational achievements possible with the deployment of a whole-of-system approach. A specific vision and set of overarching objectives for the education system guide the Ministry's stewardship approach, with the Ministry responsible for a wide range of functions spanning from management of infrastructure that delivers the education services to holding the responsibility for implementation of legislative and regulatory control mechanisms to re-direct activity if risk/adverse activity is identified.

The Ministry's experience with stewardship in an education system context provides a reference point to support the development of a stewardship model that is cognisant of the realm of stewardship function possibilities and may assist the consideration of the scope of a steward's remit in the Australian ECEC sector.

1.5 Outcomes in the ECEC sector

The degree and type of government involvement in ECEC—for example funding model design, market regulation, expenditure, and administration—shape the sector, influencing outcomes such as **child care costs and enrolment levels**.

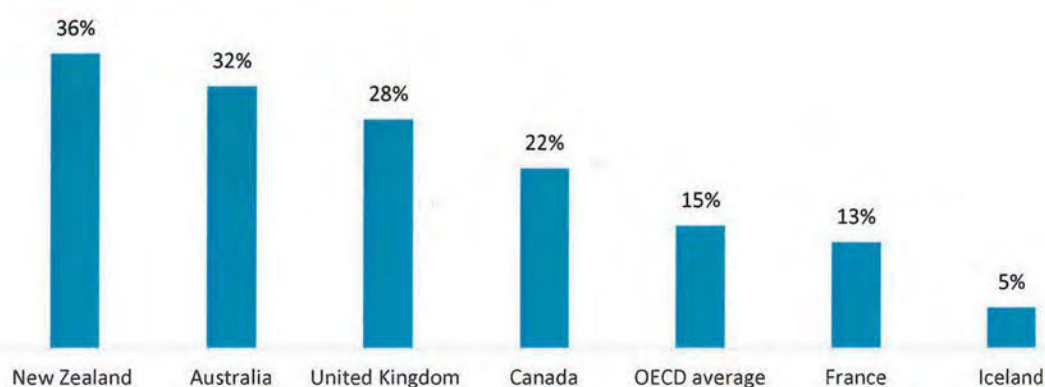
Child care costs

Child care costs relative to the average national wage vary considerably across the globe (Chart E.3). In Australia, child care costs make up 32 per cent of the average wage, more than double OECD average of 15 per cent. Australia has a similar level of costs to the UK (28 per cent) and NZ (36 per cent), but far higher costs than France (13 per cent) or Iceland (5 per cent).¹²⁸ Child care costs appear to be higher in ECEC markets where there is a lot of private provision and little public expenditure. Public provision allows for governments to limit price-gouging by for-profit businesses, while public expenditure can heavily subsidise necessary ECEC costs.

¹²⁸ OECD Data, 'Net childcare costs' (2020) <<https://data.oecd.org/benwage/net-childcare-costs.htm>>.



Chart E.3: Child care costs as a percentage of the average wage



Source: OECD, 2018

Case Study

United Kingdom and ECEC affordability

The Australian ECEC sector has many structural similarities to the UK sector, including:

- the use of markets to deliver ECEC services
- a universal entitlement to 15 hours of ECEC
- targeted support for disadvantaged families
- below-OECD-average public spending on ECEC
- similar levels of private expenditure – 60 per cent of total expenditure in the UK, 65 per cent in Australia.

Over the past decade, ECEC costs for families in the UK have risen significantly, undermining the affordability of the sector.¹²⁹ Today, child care costs make up 28 per cent of the average income in the UK—well-above the OECD average of 17 per cent. This cost likely underestimates the additional payments made by families for extended hours and add-ons.

The UK Government's ECEC policy has created distortionary incentives that undermine objectives of affordability and equity including incentives for private-for-profit providers to:¹³⁰

- Deny access to families only seeking funded early education for their children. Some providers have begun charging top-up fees for universal and extended hours.
- Require upfront fee payments from families seeking care above the funded entitlement for 2-, 3- and 4-year-olds and families with younger children receiving Tax-Free Child care and Universal Credit.
- Continually increase child care fees for extra hours, significantly above the rate of inflation.

Providers have also argued that they receive insufficient funds from Government to make their services financially sustainable¹³¹. In June 2021, an investigation by the Early Years Alliance highlighted that the UK Department of Education is aware that its child care subsidies do not cover providers' costs.¹³² This has encouraged ECEC providers to increase the price of extra

¹²⁹ Megan Jarvie, Sam Shorto and Hannah Parlett, 'Childcare survey' (2021) *Coram Family and Childcare* <https://www.familyandchildcaretrust.org/childcare-survey-2021-0>

¹³⁰ Eva Lloyd, 'Ensuring fairer access to early years and childcare provision after the COVID-19 lockdown' (2020) *Nuffield Foundation* <https://www.nuffieldfoundation.org/news/opinion/ensuring-fairer-access-early-years-provision-after-covid-19-lockdown>

¹³¹ Eva Lloyd, 'Why the UK childcare system is at breaking point' (2021) *The Conversation* <https://theconversation.com/why-the-uk-childcare-system-is-at-breaking-point-168151>

¹³² Rachel Lawler, 'New data shows ministers knew early years was underfunded' (2021) *early years alliance* <https://www.evalliance.org.uk/news/2021/06/new-data-shows-ministers-knew-early-years-was-underfunded>



hour services and charge additional fees for other services (e.g., lunches and outings for children).

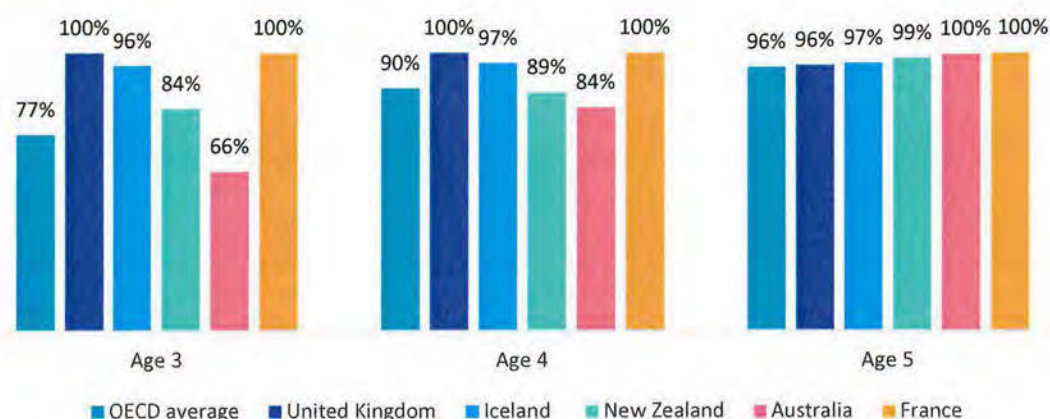
Not only is the structure of Australia's ECEC sector similar to that of the UK, Australia's child care costs (relative to the average wage) are also far above OECD average. As such, the UK's pursuit of affordability in its ECEC sector provides a useful case study for the department.

1.6 Enrolment levels

While most of the countries considered have at least 95 per cent participation in ECEC at age 5, there is far more variation in enrolment in ages 3-4. Australia notably underperforms in terms of participation for 3-year-old children—only 66 per cent of 3-year-olds in Australia are enrolled in ECEC compared to an average of 77 per cent across the OECD (Chart E.4).

Countries with high ECEC enrolment rates, such as France and Iceland, are typified by a high degree of universal service provision and low child care costs. This reflects both that cost can act as a major barrier to accessing ECEC and that universal programs shift societal norms towards attending early childhood education.

Chart E.4: Enrolment rates



Source: OECD, 2019

Note: At age 5, children from the UK start school. In Australia, NZ and Canada, 5-year-olds have the option of enrolling in school. In Iceland and France, 5-year-olds can only attend preschool.



Appendix F: Stewardship case studies

This Appendix provides a series of case studies on domestic and international examples of stewardship. The domestic examples examine public service markets that are similar to ECEC, including the NDIS, aged care and Vocational Education and Training (VET) systems. The international examples examine the ECEC markets in New Zealand, Canada and the UK. These case studies aim to identify key enablers and barriers to successful stewardship and draw out implications that may be relevant to the department. In doing so, the Appendix provides an input into Chapter 4 of the Strategy.

1.1 Key findings from Australian case studies

In Australian public service markets, concepts of stewardship have guided policy reforms in the care sectors – with a stewardship model applied by the NDIA in their oversight of the NDIS market and proposed as a potential approach in the Aged Care system as part of the Royal Commission Recommendations. These examples of stewardship models in other Australian public service markets can inform a set of practical considerations for developing and communicating the rationale, scope and responsibilities of the department as an ECEC Market Steward.

The Australian market for VET can be understood as a model of co-stewardship, with different actors having different responsibilities for relatively discrete components of the market. For example, the Australian Skills Quality Authority plays a role in quality management in the VET market, similar to the role ACECQA plays in the ECEC market. The Skills Organisations groupings oversee industry inputs into VET curricula, and the Department of Employment and Workplace Relations, through the NSC, plays a role in market monitoring and data stewardship. The NSC's function also informs the design and implementation of policy by both Australian Government and state and territory governments and informs how these governments work together to 'shape' the market.

The NDIS

The NDIS was developed in response to the 2011 Productivity Commission's *Disability Care and Support* report, which found that people with a disability were not being provided with adequate choice over the supports they received and were regularly missing out on essential disability services.¹³³

Under the choice-of-provider model of the NDIS, people with a disability are allocated funding, which is tailored to their individual needs and self-directed aims.¹³⁴ Individuals use the funding to purchase the services that best suit their needs.¹³⁵ Such services include support for daily activities, mobility and communication supports and help with finding employment. Disability supports are delivered by a wide array of service providers including large companies, charities, not-for-profits and sole traders.¹³⁶

All Australian governments, including state and territory governments and the Australian Government, contribute to the funding and governance of the NDIS.

¹³³ Productivity Commission, *Inquiry report on Disability Care and Support* (2011) <<https://www.pc.gov.au/inquiries/completed/disability-support/report>>

¹³⁴ Malbon, E., Reenders, D., Carey, G., and Marjolin, A. *Stewardship Actions for Market issues in the National Disability Insurance Scheme: A Review of the Evidence* (2019)

<https://www.researchgate.net/publication/344021923_Stewardship_Actions_for_Market_issues_in_the_National_Disability_Insurance_Scheme_A_Review_of_the_Evidence>

¹³⁵ NDIS, *What is a service provider?* (2018) <<https://www.ndis.gov.au/participants/working-providers/what-service-provider>>

¹³⁶ Ibid.



The Australian Government provides just over half of all NDIS funding with state and territory governments responsible for the rest.¹³⁷ The Australian Government Minister for the NDIS, with agreement from state and territory ministers, is tasked with exercising the statutory powers of the *NDIS Act (2019)*, which include the duty to make NDIS rules and direct the NDIA. NDIS policy decisions are made by National Cabinet and the NDIS is regulated by the NDIS Quality and Safeguards Commission.

The NDIA, an independent statutory agency, acts as a steward for the NDIS market. The core responsibilities of the NDIA are to provide individualised plans and funding for people with a disability and to coordinate services bookings, payments, and access to plans for providers.¹³⁸ The NDIA's stated role is to support *"an efficient and sustainable marketplace through maintaining a diverse and competitive range of suppliers who are able to meet the structural changes created by a consumer driver market."*¹³⁹

The NDIS was designed with a market stewardship approach in mind, because it is a complex system of quasi-markets that, if left to operate without supervision, would be prone to market failure.¹⁴⁰ This market failure would restrict the availability of multiple, competing providers, particularly for people in remote areas or with complex needs.^{141,142} Hence, as the market steward, the NDIA seeks to improve access to services by giving families control and choice between an array of providers.¹⁴³ It also supports equity by intervening in instances of under provision.¹⁴⁴

The NDIA was tasked with intervening in the NDIS market in three main ways:

- **Monitoring** the day-to-day operation of the NDIS to evaluate whether the marketplace is achieving its outcomes and informing intervention.
- **Facilitating** the market through interventions to support market competition and diversity.
- **Commissioning** the provision of services to ameliorate significant market gaps and to manage risk.

Some of the specific market activities undertaken by the NDIA could provide a point of reference for a steward in the Australian ECEC market. These activities include undertaking pricing reviews, publishing market intelligence to facilitate competition between suppliers, enabling dialogue between industry and families to shape the market, establishing a provider benchmarking model, and establishing market monitoring. The NDIA has also published a NDIS Market Approach (Statement of Opportunity and Intent), which articulates its approach to market stewardship.

The Market Approach also commits the NDIA to selecting market interventions on the following basis:

- Interventions should be selected with a view to **minimising unnecessary disruption** to the market
- An intervention should be limited to the **shortest effective period of time possible**
- Options available for market intervention **range from light touch to highly interventionist**

¹³⁷ Parliament of Australia, National Disability Insurance Scheme: a quick guide (2022)

<https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp2122/Quick_Guides/NationalDisabilityInsuranceScheme>.

¹³⁸ NDIS Quality and Safeguards Commission, What we do (2022) <<https://www.ndiscommission.gov.au/about/what-we-do>>

¹³⁹ NDIS Market Approach, Statement of Opportunity and Intent 2016

¹⁴⁰ Reeders, D., Carey, G., Malbon, E., Dickinson, H., Gilchrist, D., Duff G., Chand, S., Kavanagh, A. & Alexander, D. Market Capacity Framework, Centre for Social Impact (2019) <https://www.csi.edu.au/media/Market_Capacity_Final.pdf>.

¹⁴¹ Carey, G. Market stewardship: goals, roles aren't enough – what interventions can officials make?, the Mandarin (2018) <<https://www.themandarin.com.au/98991-market-stewardship-goals-roles-arent-enough-what-interventions-can-officials-make/>>.

¹⁴² Ibid.

¹⁴³ NDIS Market Approach, Statement of Opportunity and Intent (2016)

¹⁴⁴ Ibid.



- Specific decisions on which particular intervention to implement will be determined **based on the specific circumstances** (considering factors such as risk to participants and time available for response)

The NDIA's interventions in the market were designed to evolve over time as the market matures. During the initial transition to the NDIS, the NDIA was expected to have an active role in developing the market, engaging in high levels of monitoring, facilitating and commissioning.¹⁴⁵ Over the longer term, the NDIA is expected to have a lighter touch over the market, strongly reducing the extent to which it directly sources supports.¹⁴⁶ While the NDIA was responsible for setting the price of supports during the rapid ramp up of the NDIS, it is envisaged that prices will eventually be deregulated as the market matures in size, quality and innovation.¹⁴⁷

By facilitating competition among providers and commissioning services directly, the NDIA supports **market goals of accessibility, quality, and equity**. Effectively, it ensures the market is in the best position to provide all participants with access to adequate disability support and, in instances where this support is still sub-par, commissions quality services directly. The NDIA facilitates the market goals of system connectedness through extensive information sharing and enabling a dialogue between families and providers. As most NDIS participants face fixed prices set externally by NDIS actuaries, the NDIA has limited control over the goals of affordability and system sustainability.

Some practical challenges have limited the capability of the NDIA as a market steward and can be used to identify potential risks for an ECEC market steward.^{148, 149, 150, 151} These challenges include an unclear scope of the market steward (including its role in thin markets as a provider of last resort), information gaps in the NDIS market which have restricted market monitoring capability and market features such as fixed pricing which limit the interventions available to the steward.^{152, 153, 154, 155}

The NDIA's stewardship role commenced at the same time as the NDIS market was conceived. While an ECEC market steward would not operate in this context, the NDIA's experience navigating a context of low participant readiness, low workforce readiness and low service provider readiness reiterates the need to develop a stewardship model that is cognisant of the market's context and the capabilities of its actors.

Key implications which can be drawn from the NDIS model in the ECEC market are that:

- The scope and responsibilities of the market steward must be **clearly defined and distinguished** from other players in the sector (e.g., state governments, Department of Social Services)
- The market steward must have the **ability to coordinate information sharing** in the sector, ensuring that providers and participants have access to key information on supply gaps, demand, quality and pricing

¹⁴⁵ Joint Standing Committee on the National Disability Insurance Scheme (2017) <<https://agedcare.royalcommission.gov.au/system/files/2020-06/RCD.9999.0195.0004.pdf>>

¹⁴⁶ Ibid.

¹⁴⁷ Ibid.

¹⁴⁸ Carey, G. Market stewardship: goals, roles aren't enough – what interventions can officials make?, the Mandarin (2018) <<https://www.themandarin.com.au/98991-market-stewardship-goals-roles-arent-enough-what-interventions-can-officials-make/>>.

¹⁴⁹ Joint Standing Committee on the National Disability Insurance Scheme, Market readiness for provision of services under the NDIS (2018) <https://www.nds.org.au/images/files/JSC_on_the_NDIS-Market_Readiness.pdf>.

¹⁵⁰ Joint Standing Committee on the National Disability Insurance Scheme, Market readiness for provision of services under the NDIS (2018) <https://www.nds.org.au/images/files/JSC_on_the_NDIS-Market_Readiness.pdf>.

¹⁵¹ Malbon et al. (2019)

¹⁵² Carey, G. Market stewardship: goals, roles aren't enough – what interventions can officials make?, the Mandarin (2018) <<https://www.themandarin.com.au/98991-market-stewardship-goals-roles-arent-enough-what-interventions-can-officials-make/>>.

¹⁵³ Joint Standing Committee on the National Disability Insurance Scheme, Market readiness for provision of services under the NDIS (2018) <https://www.nds.org.au/images/files/JSC_on_the_NDIS-Market_Readiness.pdf>.

¹⁵⁴ Joint Standing Committee on the National Disability Insurance Scheme, Market readiness for provision of services under the NDIS (2018) <https://www.nds.org.au/images/files/JSC_on_the_NDIS-Market_Readiness.pdf>.

¹⁵⁵ Malbon et al. (2019)



- The steward must **have the tools needed to regulate the market** and achieve its market objectives (e.g., if a key objective is affordability, the steward must have authority over prices).

The role of a system steward in Australian Aged Care

The Royal Commission into Aged Care Quality and Safety was established in 2018. Following extensive evaluation, the Commissioners provided 148 recommendations to guide reform of the aged care system.^{156,157} The Commission's final report, *'Care, Dignity and Respect'*, identified a series of major issues in the system, which included:

- **Insufficient and poorly coordinated information provision** to support people in navigating the Australian aged care system
- **Inequitable access** to services across system, such as a lack of access for older Australians who also have a disability and require supports via the NDIS
- **Poor access and low provision** of services for consumers located within rural and regional areas.
- Adherence to a 'one-size-fits-all' approach despite an acknowledgement of the need to support **flexibility and differentiation** in service delivery to meet the differing needs of a diverse set of Australians at various points in time
- **Limited active consumer engagement** with poor integration of consumer preferences and needs within service delivery models
- Rapid expansion of providers with poor oversight and **regulatory** scrutiny
- **Sub-standard quality** of care provision, reflecting systemic issues including poor governance frameworks, absence of system leadership and variable provider behaviour

In addition to the directions for reform, the Commissioners recommended that the Department of Health and Aged Care adopt a stewardship approach to strengthen the communication and coordination between governments, consumers, and providers and subsequently the functioning of markets within the Australian aged care system.¹⁵⁸

The objectives of a proposed aged care system steward reflect some of the ECEC system objectives which might be a focus of an ECEC system steward. The challenges listed above reflect the desire to achieve outcomes relating to **quality, access** (including by enabling market competition and diversity of provision), and **integration** with other public services.

The Royal Commission's recommendation that a stewardship model be adopted suggests that there exists opportunity to address the issues identified in the aged care system with meaningful sustainable solutions grounded in responsiveness to consumer preferences and needs. This recommendation supports the notion that a steward, or collection of stewards (via a 'co-stewardship' approach), with assigned roles and responsibilities, and structured monitoring frameworks, can play a role in implementing mechanisms and directing market activity to ensure alignment with the objectives of the system reform.

The exact configuration of a stewardship approach in the aged care system is still being developed. However, the Australian Government has already deployed several mechanisms that demonstrate aspects of a market stewardship approach. For example, under one of the five pillars of reform 'Residential aged care services and sustainability', the Australian Government pledged commitment to *'improving choice for senior Australians through a more innovative and resilient model'*.

¹⁵⁶ Royal Commission into Aged Care Quality and Safety, Final Report Volume 1, Australian Government (2021)

¹⁵⁷ Weikhardt, N, Better govt stewardship key to successful reform: opinion, Australian Ageing Agenda (2021)

¹⁵⁸ Royal Commission into Aged Care Quality and Safety, Final Report Volume 1, Australian Government (2021)



Considering the reform activity completed in line with the components of stewardship, it is apparent that component one of the stewardship functions – the **design** of clear and well-defined goals – occurred as part of the report finalisation following the Royal Commission. The second component – **definition** of roles, responsibilities, and boundaries for actors within the system – is still in progress. Moving forward, the steward(s) will transition into the monitoring/**detection** and **directing** phases, guiding market activity to ensure satisfaction of set goals and guaranteeing sustainable reform.

Given the inherent similarities that exist between the aged care system and the Australian ECEC system, there is opportunity to leverage the Royal Commission's recommendations to both support the deployment of and shape the stewardship approach in the ECEC sector, noting that the aged care stewardship approach has yet to be finalised and its effectiveness is still untested.

Co-stewardship in Australian Vocational Education and Training (VET) markets

The VET market comprises of a diverse set of providers and is managed and regulated across a **complex network of regulatory bodies**, at both state and Australian Government levels, each with different functions shared across the system. For instance:

- Provider quality assurance is primarily the focus of the ASQA and the state authorities in Victoria and Western Australia
- Training curricula are developed by a network of Industry Reference Committee (IRCs), Skills Service Organisations (SSOs) and the Australian Industry and Skills Committee (AISC)
- Student data is collected by multiple agencies, with the National Centre for Vocational Education and Research (NCVER), the primary body accountable for holding data on measures of student activity and outcomes¹⁵⁹

In 2019, the Joyce Review of the VET system set out a vision for a more modern, applied and fast-paced VET market, enabled through a more nationally coherent VET system, supported by national agencies.¹⁶⁰

While seeking to ensure enough flexibility for the sector to respond to the diverse needs across Australia's states and territories, the Review sought to establish a VET model with greater levels of national stewardship.

The NSC plays a major role in market monitoring and information sharing, functions which inform the design and implementation of policy, including informing how state and territory governments 'shape' their respective markets. The NSC and the National Careers Institute (NCI) could be understood as co-stewards over different components of the system. Where the NSC primarily focuses on the provider side, and the NCI focuses on the student demand side of the market for skills. The role of the NSC will now be carried out by Jobs and Skills Australia.

The Joyce Review argued that a market coordinated at a national level would support greater responsiveness through information sharing, and a consistent approach to pricing and funding. Other components proposed in the Review would also support the implementation of a stewardship model – for instance, a consistent model of quality assurance (where all states and territories delegate quality assurance responsibility to AQSA) and a more streamlined approach to industry engagement (via Skills Organisations) would reduce the number of actors that could be understood as systems leaders or co-stewards.¹⁶¹

¹⁵⁹ Joyce, S (2019) *Strengthening Skills: Expert review of Australia's Vocational Education and Training System* <<https://www.pmc.gov.au/resource-centre/domestic-policy/vet-review/strengthening-skills-expert-review-australias-vocational-education-and-training-system>>

¹⁶⁰ Ibid.

¹⁶¹ Joyce, S, *Strengthening Skills: Expert review of Australia's Vocational Education and Training System* (2019) <<https://www.pmc.gov.au/resource-centre/domestic-policy/vet-review/strengthening-skills-expert-review-australias-vocational-education-and-training-system>>



The Joyce Review's model of the future VET system reflects a **hybrid model of co-stewardship and systems leadership approaches to market management**. Co-stewardship approaches assign various stewards to the multiple markets within a single system (reflected in the sharing of responsibilities between the NSC and NCI) while systems leadership models establish multiple actors from different levels across multiple systems to coordinate activity (reflected in the interface between the NSC and the state and territory governments).

While VET markets could be understood with a lens of stewardship, there is arguably no clearly established system steward. While system reforms to implement the Joyce Review recommendations are ongoing, there remains uncertainty about which agencies are ultimately accountable for some aspects of the system – such as the AQF and its role in the VET system, the extent of consistency and interoperability in national training products, and in how the network of system actors, especially the skills organisations network, is managed.

1.2 International case studies

Stewardship of the education system in New Zealand

The Ministry of Education (the Ministry) is the leading advisor to the New Zealand Government on education from the early childhood to tertiary education.¹⁶² Additionally, the Ministry is the steward of the education system – language which is explicitly used by the Ministry in its communications with stakeholders and other market actors, including in its annual market reporting. Under the stewardship approach to education in New Zealand, the Ministry holds responsibility for:

- Developing and maintaining **collaborative partnerships** with sector personnel to deliver equitable and excellent outcomes for learners of all ages
- Delivering advice to **guide performance** of the education system over time
- Providing support to sector leaders to enable the sector to **progress and achieve**¹⁶³

The transition to a system stewardship approach occurred in 2013-14, following recognition of the enhanced opportunities of educational achievement possible through a whole-of-system approach grounded in collaborative partnership establishment, data informed decision-making, effective targeted investment to support growth and achievement within the sector and the delivery of services and supports to personnel operating within the sector.^{164,165} Further, the integration of stewardship within public services appears well supported across New Zealand government agencies with a definition of stewardship incorporated within the renewed 2020 Public Service Act.^{166,167}

Operating under a system stewardship approach, the Ministry has designed a clear vision and set of five objectives through which activity of the education system is defined and directed in line with, including:

- Learners at the centre
- Barrier-free access
- Quality teaching and leadership
- Future of learning and work
- World class inclusive public education

¹⁶²The Ministry of Education, Annual Report 2021, *Ministry of Education* (2021)

¹⁶³The Ministry of Education, Annual Report 2021, *Ministry of Education* (2021)

¹⁶⁴The Ministry of Education, Annual Report 2014, *Ministry of Education* (2014)

¹⁶⁵The Ministry of Education, Annual Report 2015, *Ministry of Education* (2015)

¹⁶⁶ANZSOG, *Reimagining governments as system stewards to deliver better outcomes* (2021)

¹⁶⁷New Zealand Legislation, *Public Service Act 2020* (2020)



As a system steward the Ministry has a far-reaching role in the provision of functions to support activity across the education system, including but not limited to:¹⁶⁸

- **Assessment of the performance of the system** through research, data collection and analysis.
- **Monitoring the activity of providers** and intervening with legislative and regulatory controls when risky or adverse activity is identified
- **Supporting the adaptation and the delivery** of learning support programmes for learners with additional needs, improving equity of access to services
- **Equipping providers and consumers with supports and resources** to support empowered engagement and delivery of equitable outcomes
- **Providing strategy and policy advice** to support the Ministry in international engagements.
- **Monitoring the use of property, transport items and information/computer technology** owned by the Crown
- **Overseeing the operational performance** of the system responsible for provision of financial payments to employed staff

The Ministry's approach to system stewardship is a supportive reference point for the establishment of a similar approach in the Australian ECEC sector. While the Australian Government is yet to define their ECEC stewardship approach, the Ministry's experience to date serves as a useful starting point to support development of a stewardship model which may consider inclusion of these functions.

Approaches to ECEC market stewardship in Canada

Prior to 2021, Canada's ECEC sector had little central government oversight and was nearly exclusively the responsibility of provincial and territorial governments.

As a result, the way child care was provided in Canada varied significantly between provinces. Many Canadian provinces had a market system, characterised by high levels of private provision, a lack of price controls and few taxpayers funded subsidies. In provinces such as Newfoundland and Labrador, the private sector provided up to 70 per cent of child care places.¹⁶⁹ However, governments in other provinces, such as Quebec, engaged in high levels of direct provision, price regulation and subsidisation.

In 2021, the Federal Government of Canada announced the creation of a national ECEC system, allocating CA\$30 billion over the next five years to creating public child care centres and reducing child care fees to an average of \$10 a day across the country. While the creation of a national child care scheme had been long-promised, it was finally implemented in a direct response to the COVID-19 pandemic, aiming to boost the Canada's economic recovery and the return of parents to the workforce.¹⁷⁰ It also was enacted to rectify findings that, in many provinces (particularly those with market-based systems), ECEC services were "*unaffordable...inequitable and inadequate*."¹⁷¹ Since the announcement, all provinces and territories have signed onto the national plan, suggesting that ECEC provision in Canada will become increasingly consistent along jurisdictions.¹⁷²

¹⁶⁸ The Ministry of Education, Annual Report 2021, *Ministry of Education* (2021)

¹⁶⁹ Child Care Canada, Early childhood education and care in Canada (2019) < Child Care Canada, Budget 2021: A recovery plan for jobs, growth and resilience (2021) <<https://childcarecanada.org/documents/research-policy-practice/21/04/budget-2021-recovery-plan-jobs-growth-and-resilience>>

¹⁷⁰ Child Care Canada, Budget 2021: A recovery plan for jobs, growth and resilience (2021) <<https://childcarecanada.org/documents/research-policy-practice/21/04/budget-2021-recovery-plan-jobs-growth-and-resilience>>

¹⁷¹ Child Care Advocacy Association Canada, An analysis of the multilateral early learning and child care framework and the early learning and child care bilateral agreements (2019) <<https://muttart.org/wp-content/uploads/2019/05/Child-Care-Now-The-Multilateral-Early-Learning-and-Child-Care-Framework-and-the-Early-Learning-and-Child-Care-Bilateral-Agreements-Feb.-2019.pdf>>

¹⁷² CTV News, Ontario signs \$10.2 billion child-care deal with federal government: sources (2022) <<https://toronto.ctvnews.ca/ontario-signs-10-2-billion-child-care-deal-with-federal-government-sources-1.5837054>>



For the past two decades, Quebec's ECEC system has been an outlier in Canada due to its high levels of public provision and subsidisation. In 1997, Quebec passed the *Educational Child Care Act*, which legislated the universal provision of publicly subsidised child care for children aged from 0 to 12. It established not-for-profit, low fee, directly funded child care centres at the centre of its system and it limited child care costs to under CA\$5 a day per child (raised to CA\$7 a day in 2004 and to a sliding scale up to CA\$21.20 in 2014-15).

In practice, care was provided by a mix of not-for-profit, family-based, reduced-fee for-profit and full-fee for-profit providers, all of which received subsidies from the provincial government.¹⁷³ Full-fee for-profit providers charged up to \$40 per child per day. In 2016, the total cost of direct and indirect subsidies to all four types of child care was CA\$2.5 billion, approximately 0.6 per cent of Quebec's GDP.¹⁷⁴ This was just above the average OECD spending on ECEC, suggesting that rolling out the Quebec model nationwide would cost a similar amount, in relative terms, to international examples of ECEC (though it would require a significant investment from the Federal Government).¹⁷⁵

The universal provision of subsidised child care had a significant and lasting impact on the provision of accessible, affordable and quality care to children and increasing the maternal labour force participation in Quebec. In 2016, Quebec had the highest female labour force participation rate among all Canadian provinces.^{176,177,178} In fact, Quebec's model was deemed so successful that it inspired the 2021 creation of a national ECEC system, with the Federal Government promising to "learn from the model that already exists in Quebec" and the Deputy Prime Minister Chrystia Freeland claiming, "Quebec can show us the way on child care."^{179,180}

By contrast, Ontario had relied primarily on market forces to deliver ECEC. In fact, it was the last province to sign onto the national plan for greater intervention in sector.¹⁸¹ Prior to 2021, Ontario's Ministry for Education exclusively licensed two types of child care providers across the province: child care centres and home child care centres.¹⁸² These were a mix of for-profit and not-for-profit providers. As of March 2020, 25 per cent of all licensed child care centres were for-profit.¹⁸³ Unlicensed providers were also allowed to operate in Ontario, provided they disclosed that they were unlicensed and complied with provincial regulations.

Unlike in Quebec, there was no universal entitlement to a child care space and providers had the freedom to set their own pricing.¹⁸⁴ To assist with affordability and access, the Ontario Government developed the Ontario Child Care Subsidy Program, which provided families with a full or partial subsidy based on a province-wide income test.¹⁸⁵ In 2019, the Ontario Government spent over CA\$6 billion on ECEC, approximately 3.8 per cent of their budget. Despite this, the cost of child care in Ontario was renowned for being particularly high. A 2019 national survey found that Ontario cities had the highest child care fees in Canada.¹⁸⁶

¹⁷³ Productivity Commission, 'Appendix G International approaches: Child care and early learning,' (2015) <<https://www.pc.gov.au/inquiries/completed/child-care/report>>.

¹⁷⁴ Fortin P, 'Quebec's Child care Program at 20' (2022) Issue 42 The Canadian Journal of Opinion

¹⁷⁵ Organisation of Economic Cooperation and Development, *Education at a Glance 2016: OECD Indicators* (Paris: OECD, 2016), Table C2.3.

¹⁷⁶ Haack, C., Lefebvre, P., & Merrigan, P. (2015) Volume 36 Canadian evidence on ten years of universal preschool policies: the good and the bad 137-157

¹⁷⁷ Cleveland, G., Mathieu, S., and Japel, C. What is "the Quebec model" of early learning and child care? <<https://policyoptions.irpp.org/magazines/february-2021/what-is-the-quebec-model-of-early-learning-and-child-care/>>

¹⁷⁸ Moyser, M., and Milan, A. Fertility rates and labour force participation among women in Quebec and Ontario (2018) Insights on Canadian Society <<https://www150.statcan.gc.ca/n1/pub/75-006-x/2018001/article/54976-eng.htm>>

¹⁷⁹ Government of Canada, Speech from the Throne to open the Second Session of the Forty-Third Parliament of Canada (2020) <<https://www.canada.ca/en/privy-council/campaigns/speech-throne/2020/stronger-resilient-canada.html>>

¹⁸⁰ Government of Canada, Building Back Better: A Plan to Conquer the COVID-19 Recession (2020) <<https://budget.gc.ca/fes-eea/2020/report-rapport/chap3-en.html#33-A-Down-Payment-on-a-Stronger-More-Resilient-Canada>>

¹⁸¹ CTV News, Ontario signs \$10.2 billion child-care deal with federal government: sources (2022) <<https://toronto.ctvnews.ca/ontario-signs-10-2-billion-child-care-deal-with-federal-government-sources-1.5837054>>

¹⁸² Government of Ontario, Ontario's Early Years Child Care Annual Report 2020, (2020) <<https://www.ontario.ca/page/ontarios-early-years-and-child-care-annual-report-2020>>.

¹⁸³ Ministry of Education, 2019 Child Care and Early Years Allocations, <https://efis.fma.csc.gov.on.ca/faab/Memos/CC2019/EYCC02_EN.pdf>.

¹⁸⁴ Government of Ontario, Ontario's Early Years Child Care Annual Report 2020, (2020) <<https://www.ontario.ca/page/ontarios-early-years-and-child-care-annual-report-2020>>.

¹⁸⁵ Finding Quality Child Care, Ontario (2019) <<https://findingqualitychildcare.ca/ontario/>>.

¹⁸⁶ Macdonald, D., and Friendly, M. In Progress: Child care fees in Canada 2019 (2020) <<https://policyalternatives.ca/publications/reports/progress>>.



The differing levels of market intervention adopted by these provincial governments may inform the approaches considered by the department in ECEC. In particular, the department may benefit from examining how these models balance the objectives of affordability, access, equity and fiscal sustainability.

ECEC markets in the United Kingdom

The UK Government provides ECEC support to families through reducing costs. It does this by funding places in regulated ECEC settings (described as 'entitlements'), subsidising tax and benefit systems and providing integrated services (see Table F.1). While benefits are given directly to families, the bulk of government funding – funding for entitlements – is directed to service providers. These supports aim to improve outcomes for disadvantaged children, promote school readiness and improve employment rates.

TABLE F.1 Government ECEC support

Entitlements	Tax and Benefits	Integrated services
<i>Universal Entitlement:</i> 15 hours per week of free ECEC to all 3- and 4-year-olds. In 2020, take-up was 93 per cent.	<i>Tax Free Childcare:</i> Government pays 20 per cent of child care costs up to a maximum of 2,000 pounds to families not receiving Universal Credit.	<i>Children's Centres:</i> deliver services (e.g., child care, family support, and health care) in disadvantaged areas.
<i>Disadvantaged Entitlement:</i> 15 hours per week of free ECEC to disadvantaged 2-year-olds. In 2020, take up was 69 per cent.	<i>Universal Credit:</i> working parents can claim back up to 85 per cent of their child care costs. The exact payment received depends on savings, income, benefits etc.	<i>Family Hubs:</i> central access point for services and support, including healthcare, relationship support and ECEC.
<i>Extended Entitlement:</i> additional 15 hours per week to 3- and 4-year-olds of parents working at minimum wage.		

Despite these supports, public expenditure on ECEC in the UK remains relatively low, making up only 0.25 per cent of GDP. This is substantially below the OECD average of 0.71 per cent. As such, the UK ECEC sector relies heavily on private delivery – with 40 per cent of total expenditure on ECEC conducted by private actors (compared to 17 per cent, on average, in the OECD).

The resulting system is a mixed market of private and public providers in which for-profit companies deliver most places. In 2019, only 7 per cent of places in the UK child care market were offered by private-not-for-profit providers (e.g., charities or social enterprises), while large for-profit chains delivered 53 per cent of care services. More than four-fifths of 2-year-olds and two-thirds of 3-year-olds accessed their funded entitlement (e.g., Universal Entitlement) in the private sector. 4-year-olds are far more likely to benefit from public services, as reception class (kindergarten) is primarily offered in public settings.



Over the past decade, the UK has struggled to achieve affordability and equity in its ECEC market. Child care costs make up on average 28 per cent of the average income in the UK, well-above the OECD average of 17 per cent. Furthermore, this cost likely underestimates the additional payments made by families for extended hours and add-ons. The ECEC system appears to have created distortionary incentives that undermine the objectives of affordability and equity by creating incentives for private-for-profit providers to:

- Deny access to families only seeking funded early education for their children. Some providers have begun charging top-up fees for universal and extended hours
- Require upfront fee payments from families seeking care above the funded entitlement for 2-, 3- and 4-year-olds and families with younger children receiving Tax-Free Childcare and Universal Credit
- Continually increase childcare fees for extra hours, significantly above the rate of inflation

Providers have also argued that they receive insufficient funds from the UK Government to make their services financially sustainable. In June 2021, an investigation by the Early Years Alliance highlighted that the UK Department of Education is aware that its child care subsidies do not cover providers' costs. This has encouraged ECEC providers to increase the price of extra hour services and charge additional fees for other services (e.g., lunches and outings).

The Australian ECEC sector has many structural similarities to the UK sector, including a reliance on markets to deliver ECEC services, a universal entitlement to 15 hours of ECEC per week, targeted support for disadvantaged families, high levels of private expenditure and relatively high child care costs. As such, UK's challenges in achieving the outcomes of affordability and equity can provide important insights into the responsibilities of a market steward for the Department.



Appendix G: Defining schematic terminology

This Appendix provides additional detailed information on how the objectives and pre-conditions included in the market schematic are defined. In addition, it provides a preliminary overview of how each of the pre-conditions could be measured. The Appendix supplements the information included in Chapter 2 of the Strategy.

1.1 Defining the objectives

A cornerstone of good governance and policy implementation is the creation of clear and measurable targets. Increasingly strategic oversight bodies are looking to adopt such targets – for example, in 2019, the New Zealand Government introduced their first Wellbeing Budget and the NSW Treasury adopted Outcome Budgeting.

In its 2021-22 Corporate Plan, the department revealed that it aims to ensure ‘Improved early learning...through access to quality child care, support, parental engagement, quality teaching and learning environments.’ Utilising information from the Corporate Plan and the sources listed below, four key objectives for the Australian ECEC sector were identified.

These objectives include accessibility, affordability, quality, connectedness, and sustainability. While equity is a critical consideration for the ECEC sector, it is viewed as being an outcome of the successful pursuit of these objectives and is therefore not examined as a stand-alone objective.

The following sources were used to determine and define the objectives:

- **Academic literature** on system and market stewardship approaches, including works on public service market management (Mazzucatto and Ryan-Collins 2019, Cary et al 2020, Gash et al 2012, Hallsworth et al 2011) and on examples of stewardship in Australian settings (NSW Treasury 2021, Malbon et al 2019).
- **System reviews and government reports**, including the *Lifting our Game* Report of the Review to Achieve Educational Excellence in Australian Schools through Early Childhood Interventions (2017), the Productivity Commission Inquiry Report into Childcare and Early Childhood Learning (2015), ACECQA publications relating to the National Quality Framework (2022) and the Report on Government Services (2022)
- **Internal policy documents and other analysis provided by the Market Policy team in the Early Childhood and Youth group**, such as the ‘ECEC Market Stewardship Update’ presentation (May 2022), the ‘ECEC Deep Dive’ presentation (September 2021) and the internal ‘stewardship roadmap’ draft discussion paper (December 2021).
- **Internal discussions and consultations** with stakeholders in other branches of the Department.

Accessibility

The objective of system **accessibility** is achieved when service provision is sufficient in **volume and flexibility** to ensure that families and children can participate in ECEC. The different facets of accessibility can be understood through the three lenses of families, providers, and government system leaders:



- For **families**, access is enabled by the availability of services that are suitable across different financial, social, and cultural contexts. This includes considering the equity of access across different cohorts, such as culturally and linguistically diverse groups, or remote communities. It may also intersect with access to aligned or integrated public services, such as health or social supports.
- Considering **providers**, accessibility might include the volume and types of provision and the incentives to supply services. The Productivity Commission, in their 2017 Inquiry, articulated stewardship as activity which ensures that providers are supported to enter and exit a market and that any conditions within the market for service operation exist only to ensure that families are provided with effective positive outcomes.¹⁸⁷
- For **government**, the objective of access would include supporting demand and supply, as well as other social objectives such as the quality and equity of access. This implies that accessibility includes the supply and demand dimensions listed above, as well as the quality of access, in terms of child outcomes, and in equitable access, such as the case of thin markets.

The level of accessibility in the CCS market and ECEC sector influences and is influenced by the sector's performance on other objectives. For instance, the affordability of ECEC is a key determinant of access (including provider viability), and the connectedness of the system to other public services could also enable (or hinder) access for families. Further, issues of quality and the suitability of services to family needs could limit access.

Affordability

The objective of **affordability** is achieved when care type options are priced in a way that incentivises participation. It is an objective for government intervention in the ECEC market that has evolved from the Child Care Subsidy legislative definition, which was designed to support families with the cost of care.

In its contemporary context, affordability serves the purpose to offer a range of options that meet the needs of families and children, priced in a way that incentivises economic participation. Affordability can be understood through the three lenses of families, providers, and government:

- For **families**, affordability is a primary concern and is the main factor in a family's ability to access childcare. The main financial support families receive to support child care affordability is the Child Care Subsidy. In the June quarter of 2021, over 1.3 million children attended a CCS-approved child care centre.¹⁸⁸ Families also consider the out-of-pocket incentive to enrol in childcare and the interaction of possible disincentives, including the CCS interaction with taxation and superannuation.
- Considering **providers**, affordability for families is important to the extent it ensures adequate demand to support provider viability.
- For the **Government**, the focus is on family affordability and calibrating the system to ensure relatively low out-of-pocket expenses. Governments influence affordability through providing funding, either directly (government payments to families or providers) or indirectly (by influencing the flow of financial support to the sector).

The level of affordability in the ECEC markets influences accessibility. For example, the affordability of ECEC is a key determinant of access (including provider viability).

¹⁸⁷ Australian Government, Productivity Commission Inquiry Report Volume 2, *Productivity Commission* (2014)

¹⁸⁸ Department of Education, *Child Care in Australia report June quarter 2021*, <<https://www.dese.gov.au/child-care-package/early-childhood-data-and-reports/quarterly-reports/child-care-australia-report-june-quarter-2021>>



Quality

In the context of ECEC systems, the objective of **quality** describes the effective management of the sector to enable high-quality care where children are safe, the workforce is highly capable, children are prepared educationally, and families are engaged.

- For **families**, quality encompasses child safety as well as social and development outcomes for children. This must also consider the role which inclusion and equity play in supporting quality for all families, for example through providing culturally appropriate services, or wraparound supports for children with additional needs.
- For **providers**, quality considerations might encompass compliance with the NQS and NQF and include activity to manage appropriate inputs – such as workforce - in line with the NQS requirements. Compliance with quality guidelines might include consulting with families to understand different users' perspectives of quality.
- For **Government**, the objective of quality is to support families by ensuring the supply of ECEC is genuine and safe. A safe service will enable participation in ECEC services as families trust the system's quality in supporting the child's development. Measuring quality might also involve considering the quality of return on investment, to ensure the safeguarding of public funds against fraudulent provision. Notably, the 'quality' considerations which the department focus on may vary from the key facets of quality which are an area of focus for ACECQA.

There is a complex relationship between access, affordability, and quality. The objective of quality, as defined in this strategy, encompasses the objectives of socially inclusive models of care, which are culturally appropriate and designed to meet the needs of families. In this way, quality enables access. Where quality of provision requires a higher level of investment from service providers which is passed on in the form of higher out-of-pocket fees, quality might be argued to hinder affordability. However, the relationship between quality of education and costs of delivery remains ambiguous and are understood to be influenced by many other factors.

Connectedness

The objective of **connectedness** describes an ECEC model which is **connected** and **integrated** (where appropriate) to other public services for children and families. This might include connectedness of outcomes to school readiness, as well as connectedness in service delivery, and the availability or wraparound services for children and their families (such as immunisation, disability support, physical and mental health supports).

- For **families**, connectedness refers to the connection of families to public services, but also the broader incentives for parents to return to work, including the calibration of the tax system.
- Considering **providers**, connectedness is not a major focus. As such, the lack of connectedness to other services may be a market failure. The provider's focus on system connectedness will differ across care types or locations, with some providers delivering broader services via place-based or all-in-one solutions.
- For **Government**, connectedness could be described in terms of connectedness to other public services (including services utilised by families and by ECEC providers), connectedness of the ECEC system across care types, connectedness between government departments and agencies, and/or connectedness of government interventions across public service markets. This may involve supporting connections between the CCS market interventions and the objectives of an overarching Early Years Strategy.



The level of connectedness in the ECEC sector is influenced by the sector's performance on other objectives. For example, the quality of services, and their compliance in referring students to additional services will enable access to public services.

Sustainability

A sustainable ECEC sector refers to a sector that is both **financially and operationally sustainable**, valued by users and adequately supported by government. This includes considering connected markets – such as the market for ECEC educators and teachers – and ensuring there is a sustainable supply of inputs to the system:

- For **families**, sustainability may be a concern where workforce or funding issues affect the consistency or quality of service across a period of care, or limit access to care altogether.
- For **providers**, sustainability considerations might include the consistency of government investment to ensure provider viability and competition, the sustainability of skills supply to manage workforce needs, and the need to ensure the services are valued by families and the public.
- For **Government**, sustainability may be achieved through stewardship activities that intervene in instances where market mechanisms are insufficient. Workforce sustainability and public perceptions of the sector's capability are critical to ensuring that the ECEC system is operating in a manner which supports the intended outcomes of workforce participation for parents and carers, and educational development for children.

The level of sustainability in the market is influenced by the fiscal sustainability from the Australian Government's Budget, workforce consistency, and capability, public perceptions of the sector, and the systems integrity. For example, if the public perceives child care to be low quality, parents are less likely to access services, therefore services are more likely to not be financially sustainable, with the system becoming unsustainable.

1.2 Defining market preconditions and measuring performance

Empowered Families

Families are **empowered** when they have strong buying power and are incentivised to participate in the ECEC market.

The key objectives that can be realised through the precondition of empowered families are **affordability and access**:

- When families have strong buying power in the market, they can **afford** ECEC services. This is particularly important in thin markets, where families may not be able to choose between different pricing options and may face relatively high costs due to short supply.
- Similarly, empowered families are economically incentivised and able to **access** the service type and volume of care that suits their individual needs.
- However, the precondition of empowered families also contributes to the realisation of other sector objectives – for example, the **sustainability** of the ECEC sector is dependent on families being incentivised to participate in the ECEC market.

The responsibility of a steward is to use a combination of levers to direct the market to meet the preconditions. The levers that the steward can use to ensure families are empowered include:



- **Funding:** financing families either through direct payments to families or indirect payments to providers.
- **Information provision:** providing families with information on care types, prices and quality that they need to exert their buying power and make educated choices around provision.
- **Policy and coordination:** legislating policy that improves the buying power of families and coordinating with Services Australia and state and territory agencies to deliver funding.

The department has a legislative responsibility in providing funding to families:

- The department's role in providing funding is based on the *Family Assistance Law*. The department administers the CCS to families, therefore indirectly funding OSHC, FDC, CBDC, and IHC. Additionally, the department provides other types of funding, including operational, capital, and preschool funding.
- The functional mechanism for distributing funds to eligible services is a function undertaken by Services Australia, and state and territory policy agencies.
- Receiving and reporting funding from the Government as a co-payment for families under the CCS is a supporting function undertaken by service providers.

Consultations highlighted a potential gap in the market, with no agency having visibility of the 'out-of-pocket' gap fee providers are requesting from families which may result in rising service costs that bring providers greater profits.

The CCS acts as the primary fee support for Australian families. However, evidence suggests that affordability remains a central issue and barrier to child care participation.

Informed Families

Families are **informed** when they are able to use information about care types, providers, pricing and quality in their decision-making. This precondition requires that the steward directs the ECEC sector to deliver market information to families. Reflecting the dual objectives to support participation and development for children, the 'informed families' includes both access to information about the ECEC sector to ensure it is navigable for users, as well as sufficient information for families to enable awareness, trust and participation in culturally suitable care options.

The precondition of informed families must be achieved before the objectives of the ECEC sector can be realised. For example:

- A lack of information on pricing may limit the **affordability** of care – families may be unable to locate low-cost services
- Limited information may also inhibit **access** for families, where information asymmetry creates challenges for family choice-making.
- Similarly, if families are unable to access information on service **quality**, this may reduce incentives for providers to compete based on quality.
- A lack of information about care options and associated services may also hinder sector **connectedness**, as families are unable to access wrap-around services if relevant information is not provided.
- Where families are informed, there are also benefits for providers, where the supply-side of the market can make clearer competitive signals about their offerings.

The steward can use a range of levers to ensure families are adequately informed. Such levers include:



- **Information provision:** directly collecting information from providers and families, and disseminating that information to families;
- **Regulation:** requiring that key system leaders (e.g., providers, agencies) collect and release information on ECEC service delivery;
- **Integration:** coordinating the sharing of ECEC data between government, families, and providers.

Information provision is the key lever to shape the market on the demand side, as a tool for enabling informed and supported choice making, ‘nudging’ consumer behaviour to align to system goals. The Institute for Government, in profiling the opportunities attached to a stewardship approach, acknowledges how the pertinent role of facilitating consumer engagement and informed decision-making drives success of public service market operations. Importantly, to maximise efficiency and effectiveness of information provision, there needs to exist a clear delineation of responsibilities and the steward must be sufficiently supported to undertake the activity.

A system mapping exercise revealed that currently the Department of Education plays a supporting role in disseminating information to families:

- Historically, the department’s role in sharing and compiling information about the ECEC market has primarily been for internal, market management and assurance purposes, rather than a role in providing external-facing information to families.
- The main mechanism for providing information to families about service provision options, via the NQS rating mechanism is undertaken in collaboration with ACECQA and state and territory authorities and acts as a major signal to families around quality of provision.
- Distributing information to families about their CCS eligibility is a function primarily undertaken by providers, informed by reporting from Services Australia to through resources developed by state and territory authorities.

Consultation with stakeholders highlighted a gap in accountability for informing consumers about how to navigate the ECEC market – beyond the information they receive about their eligibility for CCS, as their financial circumstances change.

Supported Families

Families are **supported** when they face minimal non-economic costs to care. Such costs include those relating to cultural or equity barriers, a lack of wraparound services or other elements of poor service design. In other words, families are supported when their preferences are understood, and services are suited to their needs.

The precondition of supported families is necessary to achieve several of the key objectives of the ECEC sector, including access, quality and connectedness.

A lack of suitable services may limit **access** for marginalised families. For example, if there aren’t culturally appropriate services or services in thin markets, then culturally and linguistically diverse communities, children with disabilities and regional communities may be disincentivised from accessing care.

Further, if services aren’t suitable for families and they face large non-economic costs to care, this may create **quality** issues relating to poor service design. For instance, an ECEC service could expanded without the necessary investments in local infrastructure, leading to overcrowded play areas and reducing service quality.



Finally, if families are unable to access well-designed, wraparound ECEC services this will undermine the sector's objective of **connectedness**. The key mechanism that the steward can use to meet the precondition of supported families is **information provision**. Through facilitating the sharing of information between government, providers and families, the steward can increase the transparency of families' needs and incentivise providers to fulfill their needs.

Though schemes such as Connected Beginnings and the Community Child Care Fund, the Department of Education plays a partial role in ensuring services are suitable to family needs vary by level. However, the system mapping exercise undertaken to inform this Strategy found that there is no clear steward responsible for equity or cultural inclusion within the ECEC system.

Similarly, the responsibility for the 'system connectedness' objective is shared across multiple system leaders including the Department of Prime Minister and Cabinet, local government, Department of Social Services, Services Australia, and service providers.

Consultation with internal and external government stakeholders acknowledge the need to break down barriers to entry and increase incentives for providers to operate quality and flexible services, thus increasing the suitability of services to families, particularly for culturally appropriate services. Additionally, there is a need to incentivise services to develop in 'thin markets' where it is currently not viable to operate an ECEC service.

Levers which can use to meet the precondition of supported families will depend on the nature of the barriers which are identified, though they may include:

- **Funding** to support services to adapt culturally safe practices, or in the case of extremely thin markets, commissioning, or direct **provision** to communities
- **Information provision**, especially information sharing between government agencies and the sector to the transparency of families' needs, coordinate responses and incentivise providers to fulfill their needs, including through place-based solutions
- Where necessary, changes to **regulation** or **policy** settings to support the market to pursue equity in the system.

Viable providers

There are two key dimensions of viability which must be present to ensure that services provision is accessible, affordable and of high quality. Providers must be:

- **Operationally viable**: that there is sufficient capacity to **supply** services to meet demand. This is primarily dependent on them having a capable and sustainable workforce.
- **Financially viable**: that there are sufficient funding flows, via family **demand** and/or government support, to incentivise providers to enter the market. When providers are sufficiently financially supported, they can deliver quality, consistent education and care, and support the continual improvement of children.

Importantly, providers can simultaneously be financially viable and operationally unsustainable (or vice versa). For example, a service may be adequately funded from families and the government but lack the workforce needed to deliver the services in demand.

Both preconditions must be established before the broader objectives of the ECEC sector can be achieved. If providers are not operationally viable in some markets, then providers may not be able to operate, especially in thin markets (e.g., regional and remote areas, children with complex disabilities, or in need of care in non-standard hours.). This would reduce the ECEC access (i.e., the volume and flexibility of care) available to many children.



If providers are unable to attract or retain experienced staff, then the quality of ECEC services will decline significantly. Quality ECEC provision relies on staff forming relationships with the children, developing an understanding of the needs of the local community and investing in their workplace – all of which are impacted by high staff turnover. Issues with financial viability can also undermine the quality of ECEC services provided.

Further, without a capable and sustainable workforce providers cannot continue to offer services into the future, which would impede the sustainability of the ECEC sector. Similarly, in markets or sub-markets where ECEC provision is not financially viable, the sustainability of the ECEC sector is threatened – large numbers of providers may stop providing ECEC services and exit the market.

The levers that can be used to direct the market towards greater **operational viability** include:

- **Policy and coordination:** introducing policies to attract talent and improve retention.
- **Funding:** investing in the sector (i.e., increasing funding for ECEC qualifications at TAFE or directly 'topping-up' the wages of ECEC workers).
- **Service provision:** creating a positive work environment for staff in publicly run ECEC centres.

Funding is the key lever used to support providers' financial viability. While a market mechanism is used to deliver services, there are circumstances where government intervention is preferable to the closure of a provider, including in the case of emergencies or where there are thin markets. Assigned responsibility for oversight and management of funding mechanisms affords the steward opportunity to support providers to remain financially sustainable within the market during periods of market instability and uncertainty. Additionally, funding mechanisms support the steward to drive market activity in thin markets e.g., rural locations, encouraging providers to enter the market and supporting them to remain viable in the competitive operating environment.

Alongside funding, other interventions might include:

- **Regulation:** designing the architecture of the market to enable providers to set prices, collect funds and deliver services in a financially viable manner
- **Information provision:** offering providers the information necessary to enter the market in financially viable areas and make informed choices about provision

To support operational viability, there is far more uncertainty surrounding which system leaders bear primary responsibility for workforce issues relating to the sector. ACECQA, on behalf of the Australian Government and state governments developed the *National Children's Education and Care Workforce Strategy (2022-2031)*, which was developed to support the recruitment, retention, sustainability and quality of the sector workforce. While this provides a roadmap for some interventions to support the workforce, consultations revealed a lack of role clarity between levels of Government around the responsibility for the pipeline on workers in the sector.

To inform market monitoring approaches, a series of potential measures of financial and operation viability are proposed below.

Competitive Providers

Providers are **competitive** when they face contestability in the ECEC market across all major dimensions including care type, price, quality, flexibility, and volume. In practice, this requires the market to have few barriers to entry, incentives for information sharing and strong guardrails against anti-competitive conduct.



The precondition of competitive providers must be met before many of the sector's objectives can be achieved. When there is sufficient contestability in a market, providers are forced to compete for customers by making their product more desirable. In the case of ECEC, this could involve a range of improvements to the care provided. For example:

- Providers could increase the volume and flexibility of care offered (e.g., offering extended after-hours care), improving the **access** of families to ECEC.
- Providers could reduce the prices of their services to attract and retain families, improving the **affordability** of child care.
- Providers may increase their service **quality**.

To increase the level of competition faced by providers, the steward can utilise several levers.

- **Information provision:** providing families with current information on all key metrics relating to ECEC (price, quality, volume etc.) so they can shop around for the best service;
- **Regulation:** restricting businesses practices that limit or prevent competition and enforcing such restrictions;
- **Integration:** coordinating with ECEC system leaders, State and Territory authorities and regulatory bodies (e.g., ACCC) to implement and enforce the 'rules of the game.'

A system mapping exercise revealed that currently **local government and state and territory governments have a functional role** in providing non-financial supports:

- The main mechanism for providing non-financial support, specifically planning and infrastructure, is via state and territory policy agencies and local governments
- Consultations with stakeholders highlighted a lack of coordination between the Department of Education's financial support and other agencies' non-financial support.

There exists opportunity for the department to extend their responsibilities beyond funding to also include responsibility for oversight of settings which foster competition via non-financial mechanisms. Both financial and non-financial levers when used in combination produce a positive additive effect, driving competition within the market and encouraging providers to deliver services that are flexible, responsive, and encompassing of the wide spanning needs of families. Given the pertinent role of system leaders from State and Local governments, there also exists opportunity for greater collaboration to ensure that the aim of achieving and fostering ongoing competition remains the centre of focus for all system leaders within the market.

Accountable Providers

Providers are **accountable** when they are held responsible for acting with integrity and complying with the rules of the market. Holding providers to account requires effective market incentives and quality assurance mechanisms, which make it costly to undertake fraudulent behaviour.

The precondition of provider accountability must be met before the ECEC sector objectives can be achieved. For example,

- Fraudulent providers may fail to offer legitimate ECEC services to the community, reducing the accessibility of such services. Moreover, if families perceive those providers are fraudulent, then they may be disincentivised from enrolling their children in child care, reducing the **accessibility** of such services.
- A lack of accountable providers will reduce the **quality** of services (e.g., providers may hire educators without the proper qualifications), resulting in comprised children safety or children not reaching their potential development outcomes. If providers are held to account, then they will meet the national quality standards.



- Fraudulent providers may receive excessive funding from government (e.g., funding for children they don't care for), increasing expenses for government and reducing the **sustainability** of the sector.

The primary levers with which the steward can ensure providers are held to account are **regulation** and **information provision**. Although ACECQA currently retains direct responsibility for regulation of quality and compliance, the steward can contribute to the activities undertaken by ACECQA through setting the 'rules of the game' (i.e., deploying minimum standards and guiding principles which providers must adhere to). Further, in monitoring the ways in which providers within the market respond to the set of 'rules and sharing this information with ACECQA, the steward is able to establish a feedback loop of information delivery with ACECQA and respond with real-time adjustments, avoiding instances of fraud or poor compliance.

However, if the steward observes that the preconditions aren't being met, then they can also intervene using the following levers:

- **Integration:** coordinating with ACEQA, Services Australia, market regulators (e.g., ACCC) and state and territory regulatory authorities to address instances of fraud or poor compliance.
- **Funding:** allocating funding to providers who can demonstrate integrity and strong compliance and restricting funding access to those who violate the 'rules of the game.'

A system mapping exercise revealed that currently the Department of Education plays a **minor role** in ensuring that providers are accountable:

- The Department of Education play a major role in the regulation and compliance of the ECEC providers, by taking action to remove fraudulent providers from the funding system.
- Broader mechanisms for regulating the ECEC system include the role of ACECQA and state and territory regulatory agencies in holding providers accountable for quality.
- ACECQA sets the NQF and accompanying NQS which guide providers' and the workforce's activity.
- State and territory regulatory authorities work with the provider sector to enact NQF and ensure compliance with the NQS.
- State and territory regulatory authorities have regular contact with providers and have a range of powers and tools to facilitate continuous improvement and ensure compliance with the NQF.¹⁸⁹
- The Child Care Subsidy is regulated by Services Australia who take action to remove fraudulent families from accessing the subsidy.
- The ECEC market system is also regulated by the whole of economy regulation, e.g., ACCC, ASIC, and ATO.
- Consultation with stakeholders highlighted the Department of Education's role in monitoring and coordinating quality standards across care types is unclear. Rather, consultations emphasised ACECQA and state and territory regulatory authorities having the majority of responsibility for managing the quality of services.

¹⁸⁹ 'Contact your regulatory agency', *The Australian Children's Education and Care Quality Authority* (2022), <<https://www.acecqa.gov.au/help/contact-your-regulatory-authority>>

