

Independent Review of Family Assistance Law (FAL) Amendments

Department of Education

22 July 2024



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The results of EY's work, including the assumptions and qualifications made in preparing the report, are set out in EY's report dated 22 July 2024 ("Report"). The Report should be read in its entirety including any disclaimers, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report.

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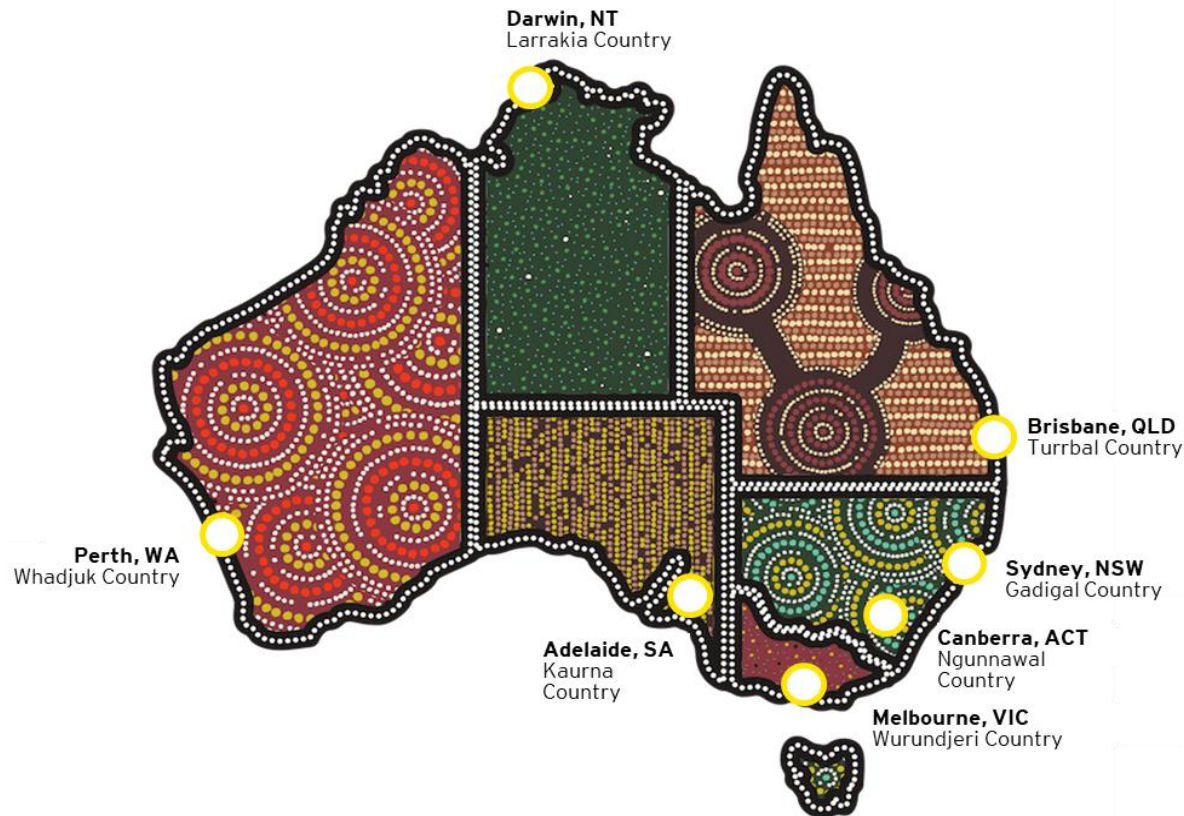
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Acknowledgment of Country



EY acknowledges Aboriginal and Torres Strait Islander people as the first peoples of Australia and Traditional Custodians of this land its waters. We pay our respects to Elders, knowledge holders and leaders both past and present.

We respectfully acknowledge Traditional Owners whose country EY's offices are located including Turrbal, Gadigal, Ngunuawal, Wurundjeri, Karuna, Whajuk, and Larrakia Nations.

We respect Traditional Owners' relationship, connection, and association to Country and that it is an integral part of their identity and cultural expression.

We understand and respect that Country is sacred, and we will work diligently and culturally responsibly in partnership to build a strong future for the People and Country.

We greatly appreciate the insights provided during this review by Aboriginal and Torres Strait Islander individuals and stakeholders. The experiences they share are of immense value and we thank them for their expertise as we collectively strive to better serve all children and families.

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Glossary of terms

TERM	DEFINITION
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACCO	Aboriginal Community-Controlled Organisation
ACECQA	Australian Children’s Education and Care Quality Authority
ACCS	Additional Child Care Subsidy
CBDC	Centre-Based Day Care
CCS	Child Care Subsidy
CPI	Consumer Price Index
DoE	Department of Education (Australian Government)
ECEC	Early Childhood Education and Care
FAL	Family Assistance Law
FDC	Family Day Care
IRSAD	Index of Relative Socio-Economic Advantage and Disadvantage
OSHC	Out of School Hours Care
PC	Productivity Commission
WPI	Wage Price Index

Note: the term ‘Indigenous’ has been used throughout this report, in alignment with the terminology used in the *Family Assistance Legislation Amendment (Cheaper Child Care) Act 2022*. This refers to the First Peoples of Australia, specifically Aboriginal and Torres Strait Islander people.

1. Executive Summary

1.1 Background

The Australian Government subsidises Early Childhood Education and Care (ECEC) nationally through the Child Care Subsidy (CCS), which is broadly available to families with children subject to eligibility requirements, and the Additional Child Care Subsidy (ACCS), which provides additional support to families in more limited circumstances. These subsidies are paid to approved service providers and passed on to families as a fee reduction. The eligibility and delivery of the CCS and ACCS is governed by Family Assistance Law, which encompasses a collection of Acts that pertain to ECEC fee assistance.

As part of an election commitment in 2022, the current Australian Government committed to the following reforms within the ECEC sector:¹

- ▶ Introducing changes to the CCS and subsidy rates.
- ▶ Engaging the Productivity Commission (PC) to undertake an independent review of the ECEC sector and report on a path toward universal child care.
- ▶ Engaging the Australian Competition and Consumer Commission (ACCC) to review the sector and design a price regulation mechanism for ECEC services.

In November 2022, the Parliament of Australia enacted the *Family Assistance Legislation Amendment (Cheaper Child Care) Act 2022* (the Act), being 'an Act to amend the law relating to family assistance to

provide more affordable early childhood education and care, and for related purposes'², namely to 'improve child care provider transparency and accountability, improve data and analytics capability, and strengthen payment integrity'.³

The Act made consequential amendments to other legislation within Family Assistance Law, specifically:

- ▶ *A New Tax System (Family Assistance) Act 1999*
- ▶ *A New Tax System (Family Assistance) (Administration) Act 1999*

The amendments in the Act (referred to as the 'FAL amendments' or 'amendments to the FAL') came into force on 10 July 2023. Section 4 of the Act legislated that an independent review into the operations of the FAL amendments is to commence by 1 July 2024.

1.2 Amendments to the FAL

Amendments to the FAL include the following:

- ▶ Lifting the CCS rate for families earning \$530 000 or less (Schedule 1).
- ▶ Introducing a base level of 36 subsidised hours of child care for Indigenous children, regardless of activity level (Schedule 3).
- ▶ Legislated discounted child care fees for staff engaged as educators (Schedule 5).

¹ Australian Labor Party (2022), Summary of proposal - Cheaper Child Care, Parliamentary Budget Office, 2022, Canberra. Retrieved from pbo.gov.au.

² *Family Assistance Legislation Amendment (Cheaper Child Care) Act 2022*, accessed 26 June 2024. Retrieved from (legislation.gov.au).

³ *Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 - Explanatory Memorandum*, accessed 15 July 2024. Retrieved from aph.gov.au.

- ▶ Expanding financial reporting requirements for large child care providers and enabling publication of certain information (Schedule 2).
- ▶ Introducing measures to reduce fraud (Schedule 4).
- ▶ Clarifying the interactions with the subsidy where providers waive gap fees for families in prescribed events or circumstances (Schedule 6).
- ▶ Providing additional discretion to allow payment of the subsidy for absences in exceptional circumstances (Schedule 7).
- ▶ Changing the period for passing on the subsidy amounts to families in limited circumstances (Schedule 8).

As of 10 July 2023, the FAL amendments modify the CCS rate for families under the following rates:

- ▶ Families earning up to \$80 000 receive CCS of 90%.
- ▶ Families earning over \$80 000 receive 90% minus 1 per cent for every \$5 000 earned above 80 000.
- ▶ CCS reduces to 0% at a family income of \$530 000.

1.3 Requirement for and scope of this review

The Act requires that the Minister for Education must cause an independent review of the FAL amendments that addresses the seven themes set out in Figure 1.

Figure 1 - FAL Review Scope

FAL Review

In accordance with section 4 of the Act, the review must consider the impact of the amendments made by the Act in relation to the following seven themes:

- ▶ The cost of child care fees and any loss of subsidies to price increases and inflation
- ▶ Creation of new and additional child care places
- ▶ Changes to service gaps across Australia, particularly in rural, regional, and remote Australia
- ▶ Changes to Indigenous children's attendance, specifically any increase in the number of Indigenous children attending child care
- ▶ Number of early childhood educators and any workforce gaps
- ▶ Any increase to the workforce participation rate
- ▶ Any increases in productivity

The Act requires the review to commence no later than 1 July 2024, with a written report of the review to be provided to the Minister within three months of the commencement and tabled in each House of Parliament, by the Minister, within 15 sitting days of receiving the report.

To maximise the amount of recent data available and the duration of time that the legislation had been in place, the review commenced on 20 May 2024. At the time of this review, 5 months of post-amendment data were available for analysis, dated from 10 July 2023 to 31 December 2023.

1.4 Overview of methodology

EY was engaged by the Department of Education (DoE) to undertake the independent review of the FAL amendments. Although the Act requires a review to be undertaken, it does not specify how the review must be conducted.

Prior to the commencement of the analysis for this review, a Project Plan was agreed between EY and DoE which established:

- ▶ The structure of the review which included discrete analysis, where possible, against each of the seven themes. For each theme, quantitative and qualitative information was considered, along with stakeholder input.
- ▶ The approach to data gathering which included:
 - ▶ A desktop review that sought to answer the below research questions reviewing publicly available reports from institutions such as the ACCC, the PC, the DoE, and submissions by peak bodies.
 - ▶ Quantitative analysis of multiple CCS datasets and ECEC sector statistics. Please see Appendix A for a complete list of data sources used during this review.
 - ▶ Targeted consultations with key government and ECEC sector and peak body representatives, as agreed with DoE.

DoE has provided oversight and support for the review, including by:

- ▶ Reviewing and endorsing the proposed project plan.
- ▶ Facilitating access to data and consultation sessions with key stakeholders.
- ▶ Reviewing draft versions of the report and providing editorial feedback, noting that the analysis and conclusions outlined in this report have been determined by EY independently of DoE.

1.5 Limitations

1.5.1 Timing

It is important to note that the FAL amendments have been in place for less than 12 months. At the time of this report, administrative data was only available up to December 2023, covering a period of five months from the commencement of the amendments.

The short period for which data is available has restricted the ability to identify clear trends and conclusive causal links between the FAL amendment and changes observed following its implementation. As such, the measurable impacts of the FAL amendments are limited by the review's timeframe. It is possible that, if the analysis were reperformed over a longer period, these findings may change.

The granularity and timeframe of data required to provide conclusive findings is dependent on the review question being answered. As an example, providing conclusive evidence of the FAL amendment's impact on changes to productivity and participation, may require a longer time frame (+5 years) and possibly linked unit-record data of individuals work arrangements pre and post amendment.

1.5.2 Data granularity

The data utilised for the analysis varies in geographical granularity, due to privacy concerns or differences in data collection or sampling methods depending on the source utilised. In some instances, the report may present findings at the Statistical Area 3 (SA3) level while in other cases analysis may only be conducted at the Remoteness and/or State level. The analysis may also be limited in presenting results at very granular geographical levels due to privacy concerns.

1.5.3 Challenges in isolating the impacts of the FAL amendments

Isolating the impacts of the FAL amendments is difficult due to the multiple factors at play within ECEC markets and variation across jurisdictions:

- ▶ Relevant changes that correlate with the implementation of the FAL amendments have been highlighted where possible, however a causal link between the FAL amendments and the identified trend cannot be assumed at this stage without a longer timeseries of data or more advanced analytical techniques that could not be completed within the timeframe of this review.
- ▶ The types of care included in the CCS program vary with regard to the cohorts who typically access them and the specific purpose they are intended to fulfil. For example, in-home care is an option reserved for families in unique circumstance or where no other alternative care is available; as such, these families may be less responsive to the FAL amendments.
- ▶ State and territory-level legislation, initiatives and regulations are in place and as such any discrepancies or variations observed between jurisdictions should not be attributed solely or directly to the FAL amendments.
- ▶ Variations in school holiday periods between states and territories also complicate analysis in certain months and for certain care types. This is particularly relevant when reviewing Outside of School Hours Care (OSHC) data.
- ▶ Hourly rate caps were adjusted on 10 July 2023 in alignment with the Consumer Price Index (CPI), impeding efforts to distinguish these changes from the FAL amendments.

These challenges were also noted by the ACCC in their September 2023 Interim report, elements of ECEC services and government supports are “highly interconnected”, and so changes to a “childcare subsidy or a change in educator wages” may have “wide-ranging and

diverse impacts across the sector”, thus meaning the “issues and policy responses cannot be considered in isolation”.⁴

1.5.4 Structural barriers impact access to ECEC services not addressed by FAL amendments

Although the FAL amendments seek to improve access to ECEC services for all children and families across Australia, there are structural barriers that impact access to ECEC services, which are not expected to be addressed by the measures assessed in this review. Some of these structural barriers include:

- ▶ Workforce constraints, contributed to by relatively low wages, training requirements and limited full-time, stable employment opportunities.
- ▶ Geographic remoteness, a lower concentration of service providers may limit the accessibility of ECEC services to families in regional and remote areas. Additionally, a greater proximity from population centres and major cities can impede access to necessary resources, staff and infrastructure for service delivery.
- ▶ Eligibility for CCS; if families do not meet the criteria for CCS, the FAL amendments would have no impact on their utilisation of ECEC services. Although the broad ECEC sector is included in the scope of the review, the impact of amendments themselves will be restricted mainly to those who use CCS services.
- ▶ Availability of inclusive and culturally informed ECEC services. If local services are not deemed appropriate for the cultural and individual requirements of the child, families will self-select out of the ECEC market.

⁴ ACCC (Australian Competition and Consumer Commission) (2023), *Inquiry into child care market and supply of services – September 2023 Interim Report*, ACCC, accessed 11 June 2024.

- ▶ A relatively complex regulatory environment spanning state/territory and federal levels, which creates barriers to entry for new providers and places administrative burdens on service providers and families.

Where relevant and appropriate, the impact these structural barriers may have on ECEC uptake are highlighted throughout this report.

1.6 Structure of this report

To ensure the review has responded to all criteria required under the legislation, this report is broadly structured in alignment with requirements for the review as set out in the Act as follows:

- ▶ Chapter 2 details the impact of the amendments on the cost of ECEC fees and the impact of inflation on the subsidies.
- ▶ Chapter 3 details the impact on the FAL amendments of the creation of new and additional ECEC places.
- ▶ Chapter 4 details the changes in ECEC service gaps across Australia.
- ▶ Chapter 5 details the changes to Indigenous children's attendance, including input provided by ECEC sector representatives and peak bodies.
- ▶ Chapter 6 details the number of ECEC educators and factors that may have influenced the impact of the amendments on workforce gaps.
- ▶ Chapter 7 details changes in workforce participation by parents and families.
- ▶ Chapter 8 details the relationship of the FAL amendments and productivity, including factors that have limited evidence of changes in productivity.

1.7 Summary of key findings

Overall, the measurable impacts of the FAL amendments are limited due to the short period for which data is available. Where findings could be made, these have been summarised below:

Figure 2 - Summary of key findings

No.	Review theme	Key findings
1	The cost of child care fees and any loss of subsidies to price increases and inflation	<ul style="list-style-type: none"> ▶ The FAL amendments provided immediate out-of-pocket cost relief to families across all care types. ▶ Average hourly out-of-pocket costs decreased the most for areas of relative socio-economic disadvantage, with 18-20% reductions for areas in Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD) 1-7, with reductions steadily diminishing to approximately 10% for the most advantaged areas. ▶ The impact of the FAL amendments on out-of-pocket costs appears to differ by remoteness area. Inner Regional and Outer Regional areas experienced the largest reduction in average out-of-pocket costs (17.5%-18.5% reductions), followed by Major Cities (14% reduction). Remote and Very Remote areas experienced the smallest average decrease in hourly out-of-pocket costs (10.5%-12.1% reduction) and stakeholder consultations noted that services in these areas face higher operating cost pressures than their regional and Major Cities counterparts. ▶ Total out-of-pocket costs remain highest in Remote Australia and Major Cities, followed by Very Remote Australia, while Inner and Outer Regional Australia have the lowest average costs. ▶ Increases to the subsidy value do not appear to have been eroded by fee increases in the months following the implementation of the amendments. However, it is important to note that the data analysed for this question only extends until December 2023. Consequently, this analysis excludes the initial months of 2024, a period that could potentially experience fee rises, as they commonly coincide with the commencement of the new school year or change in new calendar or financial years.
2	Creation of new and additional child care places	<ul style="list-style-type: none"> ▶ Service provision has continued to increase in line with pre-amendment trends and there is little evidence to suggest the FAL amendments have contributed to increased service provision within the time period of analysis.
3	Changes to service gaps across Australia, particularly in rural, regional and remote Australia	<ul style="list-style-type: none"> ▶ Overall supply of ECEC places relative to the child-aged population have risen over time in all remoteness areas however growth in Remote and Very Remote Australia has been less than in other areas. ▶ The FAL amendments have not had a conclusive impact on supply either at an aggregate level or for particular localities with service gaps.
4	Changes to Indigenous children's attendance, specifically any increase in the number of Indigenous children attending child care	<ul style="list-style-type: none"> ▶ The number of Indigenous children attending ECEC has continued to increase in line with pre-amendment trends and there is little evidence to suggest the FAL amendments have contributed to an increase in attendance for Indigenous children.
5	Number of early childhood educators and any workforce gaps	<ul style="list-style-type: none"> ▶ Workforce constraints continue to be a challenge and a major cost driver for services and providers. It is not possible to attribute the change in wider labour market trends to the FAL amendments.

No.	Review theme	Key findings
6	Any increase to the workforce participation rate	<ul style="list-style-type: none"> ▶ Workforce participation effects tend to manifest over a longer span than our analysis timeframe, hence no immediate measurable impacts have been detected. ▶ Post-FAL amendment data indicates a slight increase in ECEC attendance and parent/caregiver 'activity hours', although these changes remain consistent with pre-amendment patterns and are not statistically significant.
7	Any increases in productivity	<ul style="list-style-type: none"> ▶ Changes to productivity require a long timeframe to be analysed conclusively and are influenced by a range of factors. It has therefore not been possible to observe and analyse notable changes to productivity as a result of the FAL amendment.

2. The cost of ECEC fees and impact of price increases and inflation on subsidies

2.1 Economic context

2.1.1 Cost of living and inflationary pressures have increased the importance of financial support for ECEC

For families, household income levels and the opportunity cost of not working both play a part in determining usage of childcare services. In the current economic environment, ECEC costs are a major driver of whether parents or carers choose to enter the workforce, and thus utilise ECEC services.

The ACCC identified that households in lower socio-economic areas are likely to be more responsive to price changes in fees, as an increase in out-of-pocket expenses will have a disproportionately larger impact on their household income.⁵ Any change in out-of-pocket expenses may result in less use of ECEC or a complete withdrawal of using any ECEC (rather than a change of provider).

In addition, families with two or more children and both parents working were estimated to spend between 80 to 100% of one parent's salary on ECEC. Victoria University found that ECEC was unaffordable for 39% of families who use care, equating to 386 000 families nationally. An estimated 73 000 workers who wanted to work were not in labour force due to cost of ECEC.⁶

Finally, during consultations it was noted that services operating in rural and remote areas with high proportions of lower income households experienced greater cost pressures than their major city counterparts. Workforce challenges have placed a greater importance on attraction and retention of staff in regional and remote areas, resulting in providers

having to pay higher wages to draw in the required workers. This cost increase is passed on to families and limits the fee relief from the FAL amendments.

Therefore, the magnitude of the impact of the CCS may not be apparent through data alone, as a reduction in ECEC fees impact families differently depending on their household income (see section 7.4 for further details). As such, the impact of the FAL amendments may not enable an observable number of additional families to access ECEC if the opportunity cost of working still exceed the benefits of a small price reduction - that is, if families consider that the financial and other rewards of working do not outweigh the financial costs and lost time and associated opportunities resulting from doing so.

2.1.2 Household decision-making processes in relation to ECEC are related to more than just fees

The ACCC has noted that decision-making processes for parents and carers choosing to use ECEC are multifaceted. Households face additional costs when deciding to access, switch or change their usage of ECEC services. These costs include the mental energy and effort required to search for and transition to a new service and the emotional costs of supporting a child in transitioning and adjusting to a new service. These non-financial costs are not captured by ECEC fees.

For higher-income level households, a reduction in fees may encourage parents to increase their working hours and thus increase the number of days they utilise ECEC. This results in a rise on ECEC expenditure, despite a fall in the hourly fee they may face for care. For lower-income households, the same reduction in fees may still not be sufficient to entice an increase in their ECEC usage if the reduced fee cost is still greater than their income from working additional hours.

In addition, the quality of services available in local areas is a significant factor, and low prices may also signal a lower quality of care for parents,

⁵ ACCC (Australian Competition and Consumer Commission) (2023), *Inquiry into child care market and supply of services - June 2023 Interim Report*, ACCC, accessed 11 June 2024.

⁶ ABS (Australian Bureau of Statistics) (2023), *Health and caring for kids most common barriers to work*, ABS, accessed 17 June.

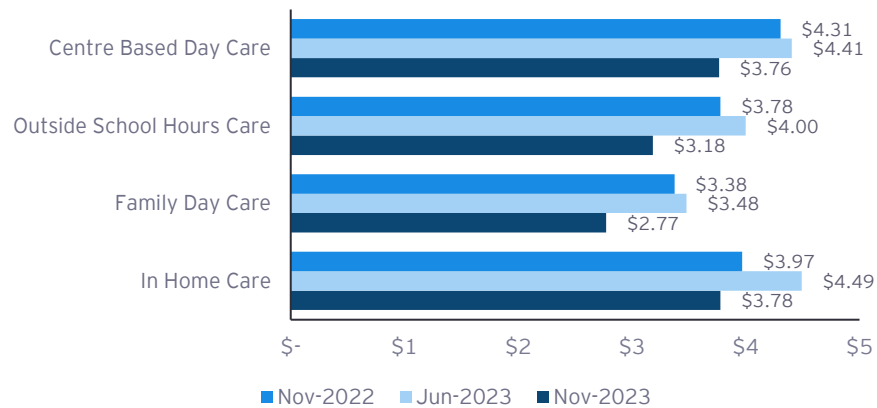
potentially contributing to perceptions of a mismatch between the supply of affordable care and the demand from local households.⁴

Finally, non-monetary switching costs are typically greater for time-poor parents or guardians and for households who have small children, and those with multiple children in ECEC.⁷

2.2 The FAL amendments provided immediate out-of-pocket cost relief to families

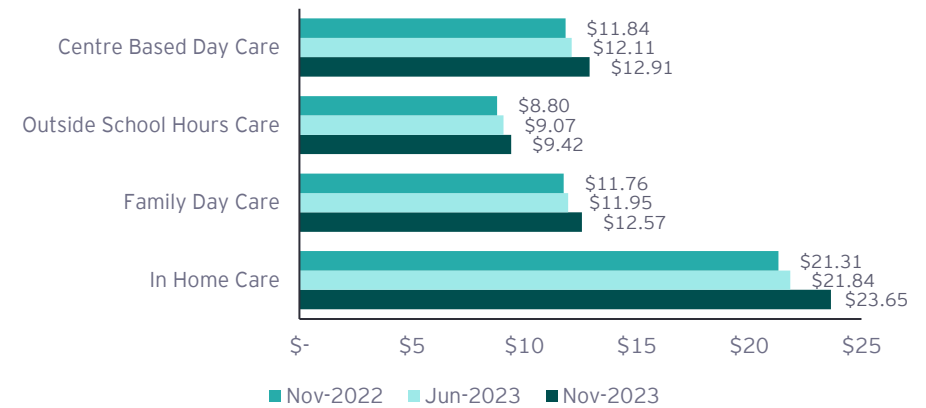
The implementation of the FAL amendments brought about an immediate reduction in the financial burden for families utilising ECEC services. Average out-of-pocket costs (as set out in Figure 3), which represent the difference between the fees charged by service providers (as set out in Figure 4) and the subsidies received through the CCS and ACCS, began to decrease following the implementation of the amendments.

Figure 3 - Average Hourly Out-Of-Pocket Cost by Care Type



Source: EY Analysis of Department of Education Administrative Data

Figure 4 - Average Hourly Fee by Care Type

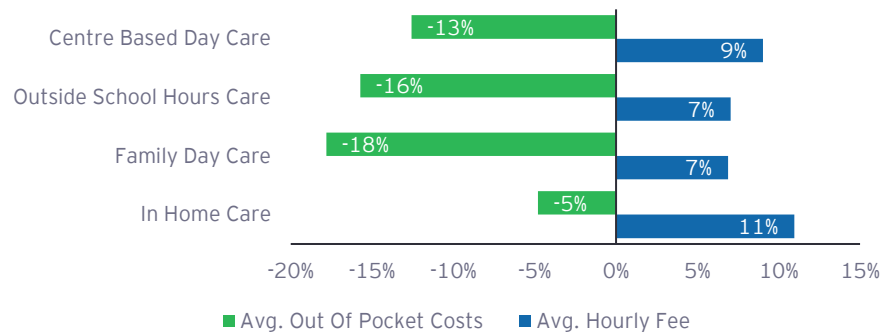


Source: EY Analysis of Department of Education Administrative Data

This reduction in out-of-pocket costs is a direct result of the average hourly subsidy paid to families, including both the CCS and the ACCS, increasing at a higher rate than ECEC fees, on aggregate, across all care types (see Figure 5).

⁷ ACCC (Australian Competition and Consumer Commission) (2023), *Inquiry into child care market and supply of services - June 2023 Interim Report*, ACCC, accessed 11 June 2024.

Figure 5 - Percentage Change in Hourly Fees and Out-Of-Pocket Costs, November 2022 to November 2023



Source: EY Analysis of Department of Education Administrative Data

The average hourly subsidy for Centre Based Day Care (CBDC) and OSHC, which accounts for 95% of government CCS expenditure,⁸ increased by 21.4% and 24.2% respectively from November 2022 to November 2023, while hourly fees charged increased by 9% and 7%, respectively.

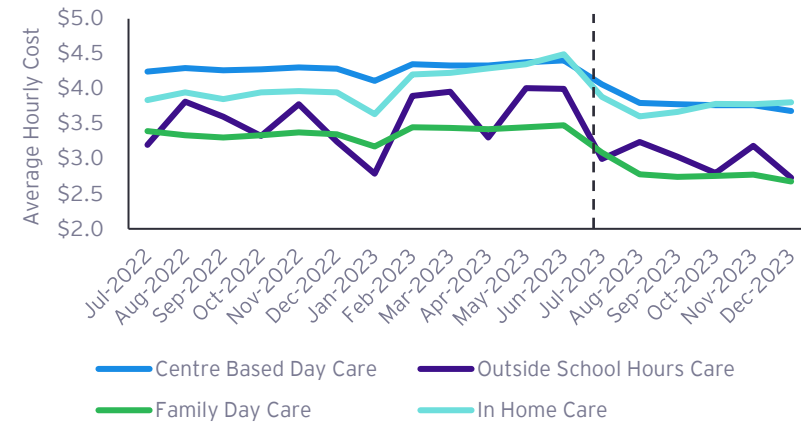
2.3 The impact in the out-of-pocket cost relief varies by a number of factors

Although there has been an overall reduction in out-of-pocket costs, the impact varies by care type, remoteness, and socio-economic indicators. Further detail on each of these aspects is described in sections 2.3.1 to 2.3.4.

2.3.1 Care Type

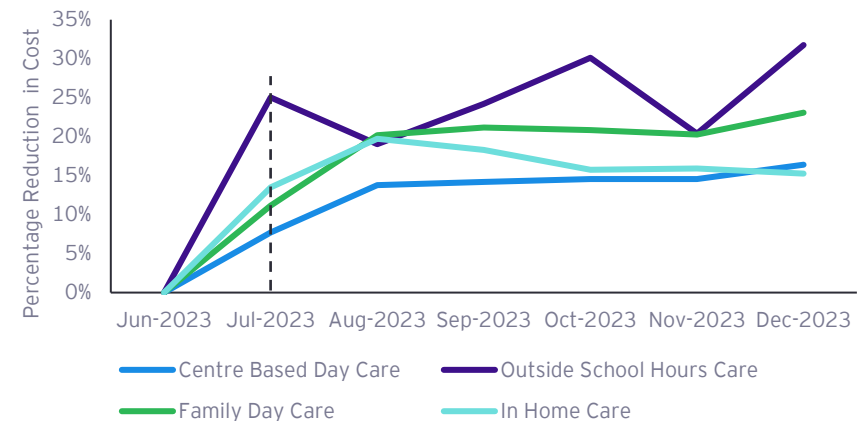
While the initial effects were observed immediately, the full impact of the amendments became more pronounced over time (see Figure 6 and Figure 7).

Figure 6 - Average Hourly Out of Pocket ECEC Costs, by Care Type (National)



Source: EY Analysis of Department of Education Administrative Data

Figure 7 - Percentage Reduction in Average Hourly Out-Of-Pocket Costs, Relative to June 2023, by Care Type (National)



Source: EY Analysis of Department of Education Administrative Data

In July 2023, the average hourly out-of-pocket cost for CBDC had reduced

⁸ DoE (2024), *Child Care Subsidy data report - December quarter 2023*, Australian Government Department of Education, accessed 7 June 2024.

by 7.7% relative to the previous month, and OSHC saw a substantial 25% decrease over the same period. However, it was not until August 2023 that the peak reduction in out-of-pocket costs was experienced across all care types. This peak signifies the first full month where the legislative changes were in full effect, and families could fully realise the benefits of the FAL amendments.

From August onwards, the reduction in out-of-pocket costs for CBDC and Family Day Care (FDC) remained at similar levels, indicating a sustained benefit from the amendments throughout the remainder of the year. In contrast, In-Home Care (IHC) services saw a 20% decrease in out-of-pocket costs in August (relative to June 2023), which slightly diminished to a 16% reduction by November. OSHC experienced larger monthly variations in out-of-pocket costs, likely influenced by different pricing strategies during school holiday periods, which complicates the analysis for this care type.

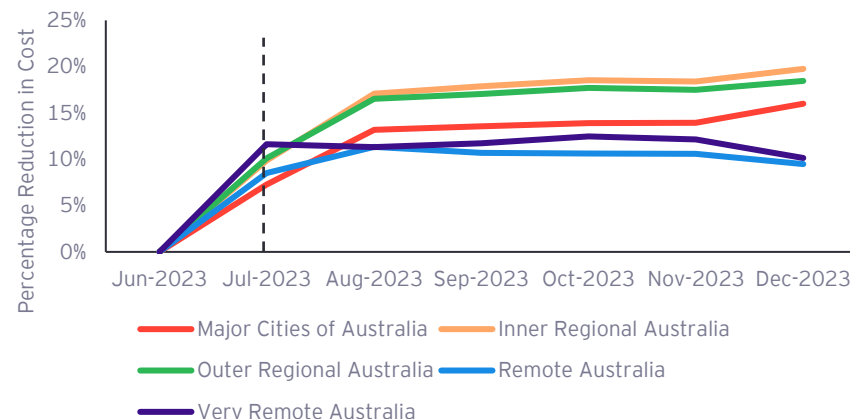
Further analysis of out-of-pocket-costs by care type is provided in Appendix C.

2.3.2 Remoteness Area

Although the FAL amendments have led to reductions in out-of-pocket childcare costs for families across Australia, the extent of these benefits has not been uniform, with variations observed based on the geographical remoteness of regions. Notably, families in Remote and Very Remote Australia have seen smaller relative reductions in out-of-pocket costs compared to those in more populated regions.

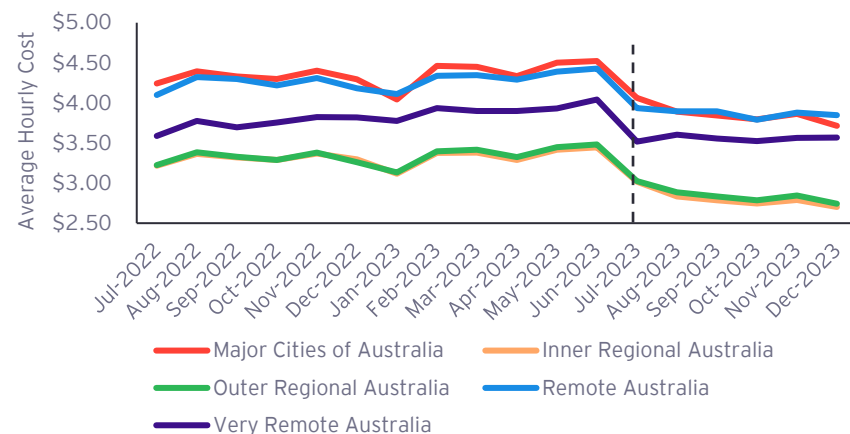
As set out in Figure 8 and Figure 9, by November 2023, Inner Regional and Outer Regional Australia experienced the most significant relative reduction in average hourly out-of-pocket costs. For CBDC, these costs decreased by approximately 17.5% relative to June 2023. In contrast, the reductions for Remote and Very Remote Australia were 10.1% and 12.1%, respectively, indicating a disparity in the financial relief provided by the FAL amendments.

Figure 8 - Percentage Reduction in Average Hourly Out-of-Pocket Costs for CBDC, Relative to June 2023, by Remoteness Area



Source: EY Analysis of Department of Education Administrative Data

Figure 9 - Average Hourly Out-Of-Pocket Cost, All Care Types, by Remoteness Area



Source: EY Analysis of Department of Education Administrative Data

As illustrated in Figure 9, total out-of-pocket costs vary by remoteness area. Total average out-of-pocket costs remain highest in Remote Australia and Major Cities, followed by Very Remote Australia. Inner Regional and Outer Regional Australia have the lowest total out-of-pocket costs. To

summarise the aggregate change in out-of-pocket costs across remoteness areas:

- ▶ Out-of-pocket costs in Remote Australia decreased the least and remain the highest relative to other remoteness areas.
- ▶ Out-of-pocket costs in Inner Regional and Outer Regional Australia decreased the most and remain the lowest relative to other remoteness areas.
- ▶ Out-of-pocket costs in Major Cities experienced a moderate level of decrease but remain relatively high.
- ▶ Out-of-pocket costs in Very Remote Australia decreased significantly but remain moderately high relative to other remoteness areas.

The variation in out-of-pocket cost reductions between areas of differing remoteness can be attributed to several factors. The ACCC observed that when comparing areas of different remoteness, the overall cost of service provision did not vary greatly.⁹ However, areas that were very remote or had higher average household income levels did experience higher than average costs. Individual supply costs related to land and labour also differed significantly:

- ▶ Higher labour costs were observed in Remote and Very Remote parts of Australia, with staff shortages driving additional costs up to \$12.50 per hour.
- ▶ Conversely, higher land costs were observed in Major Cities, decreasing with remoteness.

Stakeholder consultations also highlighted that the operational costs of ECEC services are generally higher in remote areas. These increased costs

are often passed on to families, which in turn diminishes the impact of the subsidies provided by the FAL amendments.

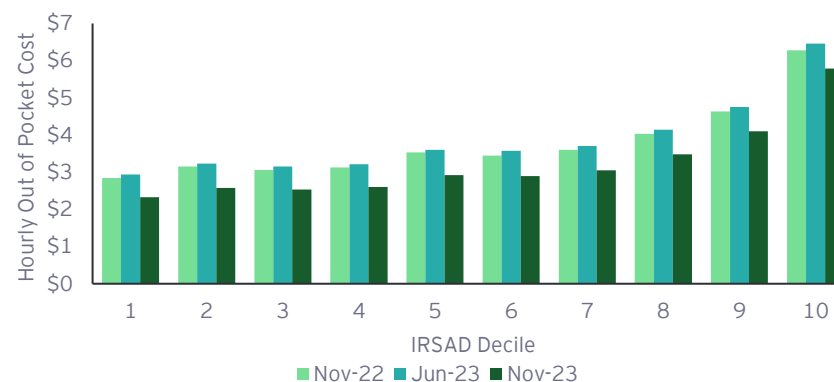
Additionally, the socio-economic backgrounds of families in these areas play a role in the differential impact of the FAL amendments, which is described in more detail in section 2.3.3 below. Socio-economic advantage and disadvantage are also known to vary significantly between regions. As a result, families in more affluent areas may receive less subsidy, leading to higher out-of-pocket expenses compared to those in less affluent regions.

Further analysis of out-of-pocket-costs by Remoteness Area and care type is provided in Appendix C and Appendix D.

2.3.3 Income Deciles

The FAL amendments appear to be effectively targeting the people most in need, with least advantaged communities receiving the largest relative reductions in out-of-pocket costs (see Figure 10).

Figure 10 - Average Hourly Out-of-Pocket Cost by Index of Relative Socio-Economic Advantage Decile (IRSAD)

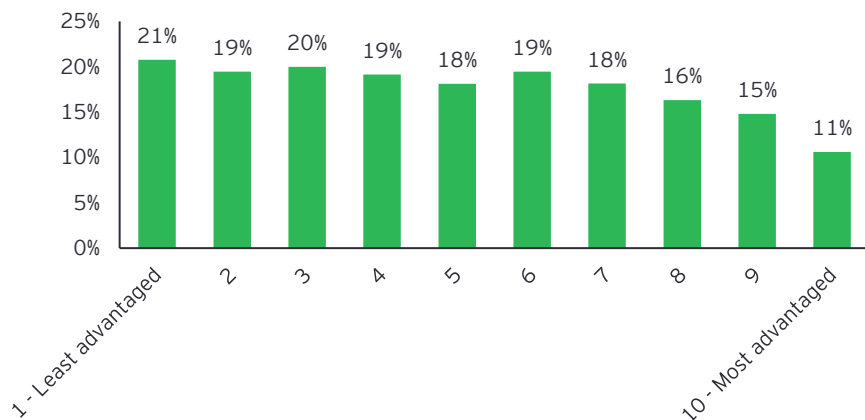


Source: EY Analysis of Department of Education Administrative Data

⁹ DoE (2024), Child Care Subsidy Policy & Program Branch data, Australian Government Department of Education, provided 1 July 2024.

On average, hourly out-of-pocket costs decreased by 18-20% from the time the FAL amendments took effect for areas in Index of Relative Socio-Economic Advantage and Disadvantage (IRSADs) 1-7, with the reductions steadily diminishing to approximately 10% for the most advantaged areas (see Figure 11).

Figure 11 - Percentage Reduction in Out-of-Pocket Costs by IRSAD decile, June to November 2023

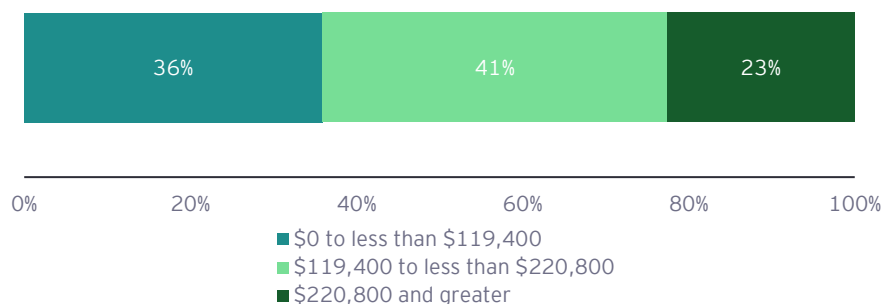


Source: EY Analysis of Department of Education Administrative Data

2.3.4 Adjusted Taxable Household Income

Household income levels across Australia vary, with a majority of families having an annual household income (adjusted taxable income) of under \$220 800 (see Figure 12).

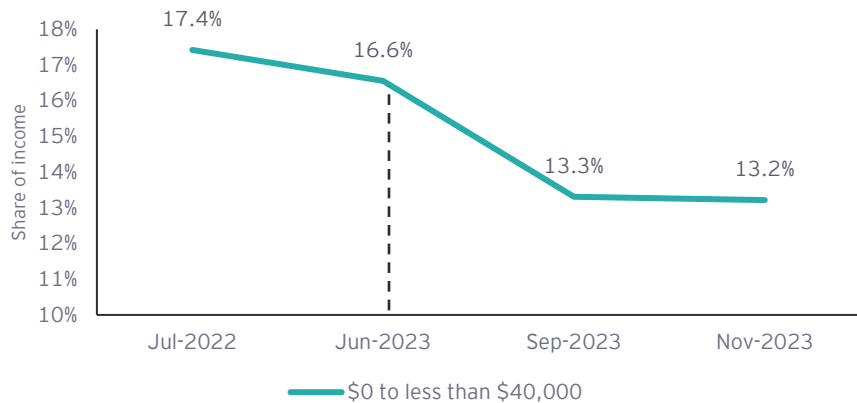
Figure 12 - Distribution of Income by Families Receiving CCS and ACCS



Source: EY Analysis of Department of Education Administrative Data

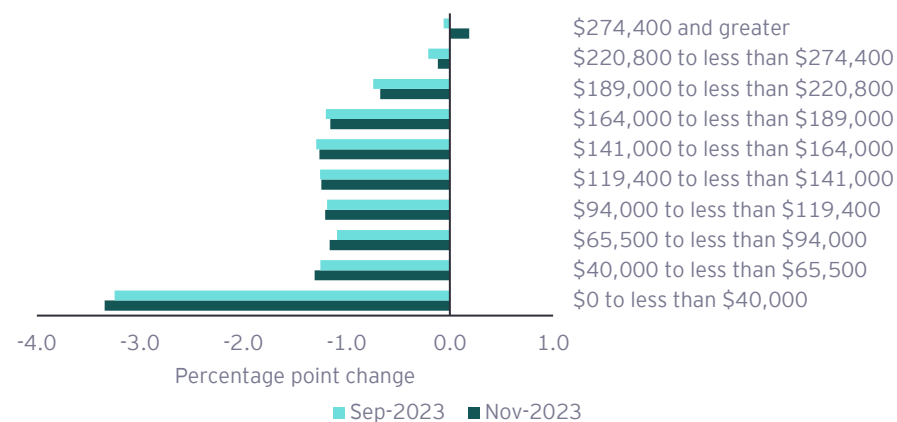
As a result, the amendments to the FAL amendments were effective in providing relief for a majority of families, who saw the share of their household income devoted to ECEC decrease (see Figure 13).

Figure 13 - Share of total, adjusted taxable family income spent on out-of-pocket costs by CBDC income deciles



Source: EY Analysis of Department of Education Administrative Data

Figure 14 - Percentage point change in share of income spent on out-of-pocket costs, relative to June 2023, by CBDC income deciles



Source: EY Analysis of Department of Education Administrative Data

Note: The analysis presented in Figure 13 and Figure 14 estimates the share of income spent on ECEC by taking the mid-point of the income bands and calculating the share devoted to ECEC. The lowest band (\$0 - \$40,000), has the largest variation and largest deviation from subsequent bands, which explains its relatively large share of income devoted to ECEC compared to its neighbouring income brackets.

The FAL amendments have had a progressive impact on the affordability of ECEC for Australian families, with the most significant benefits observed among those with lower incomes. Families earning less than \$40 000 annually experienced a substantial decrease in the proportion of their income allocated to ECEC. Specifically, from July 2022 to November 2023, this share dropped from 17.4% to 13.2%, representing a notable improvement in the financial accessibility of ECEC services for this income bracket (see Figure 13).

Families with annual earnings between \$40 000 and \$189 000 saw their share of income spent on ECEC decrease in the range of 1.1 to 1.3 percentage points following the implementation of the FAL amendments (see Figure 13). While this reduction is less pronounced than that

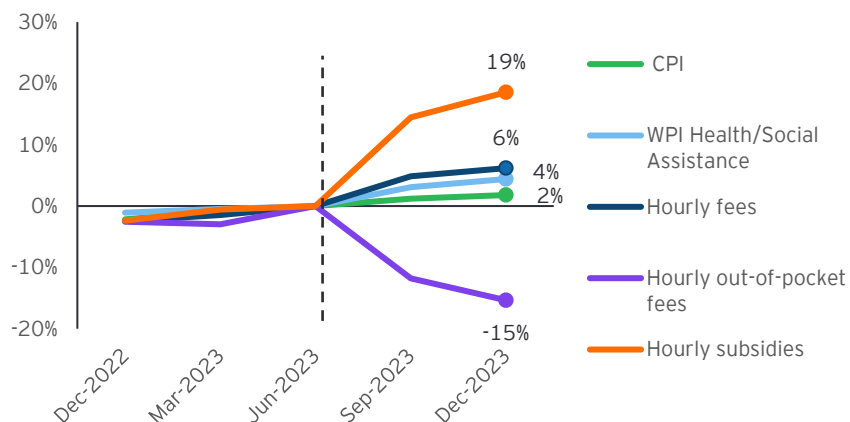
experienced by lower-income families, it still reflects a positive shift towards greater affordability of ECEC for middle-income earners.

Although the FAL amendments extended eligibility for the CCS to families with household income levels between \$350 000 to \$530 000, the share of income devoted to ECEC for these families has remained at similar levels pre- and post-amendment.

2.4 To date, changes to the CCS and ACCS have kept pace with inflation

The average hourly subsidy (CCS and ACCS) paid to families has increased at a rate above Consumer Price Index (CPI) and Health Care and Social Assistance Wage Price Index (WPI) in the quarters following the implementation of the FAL amendments (see Figure 15).

Figure 15 - Percentage Change in CPI, WPI¹⁰, Hourly Fees, Subsidies and Out-of-Pocket Costs, Relative to June Quarter 2023



Source: EY Analysis of Department of Education Administrative Data, ABS CPI and ABS WPI Data

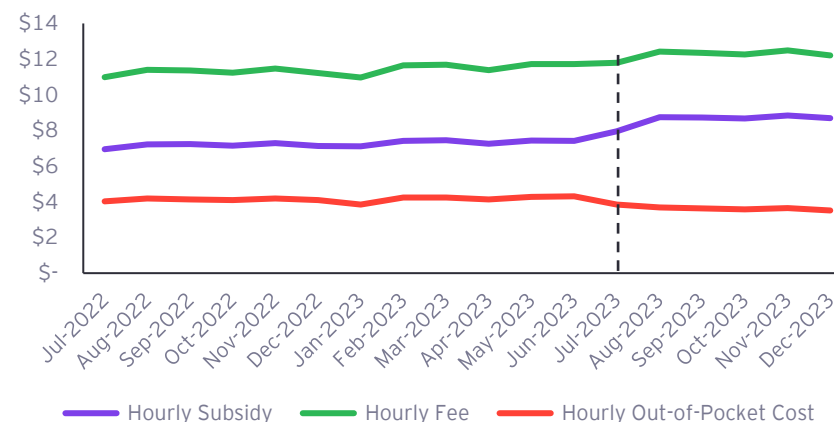
¹⁰ Health Care and Social Assistance Wage Price Index (WPI).

By the December 2023 quarter, relative to the June 2023 quarter the average hourly subsidy (CCS and ACCS) had increased by 19%, whereas hourly fees charged had increased by 6%.

However, CPI and WPI increases are increasing the cost base for services and necessitating fee rises (see Figure 16 and Figure 17).

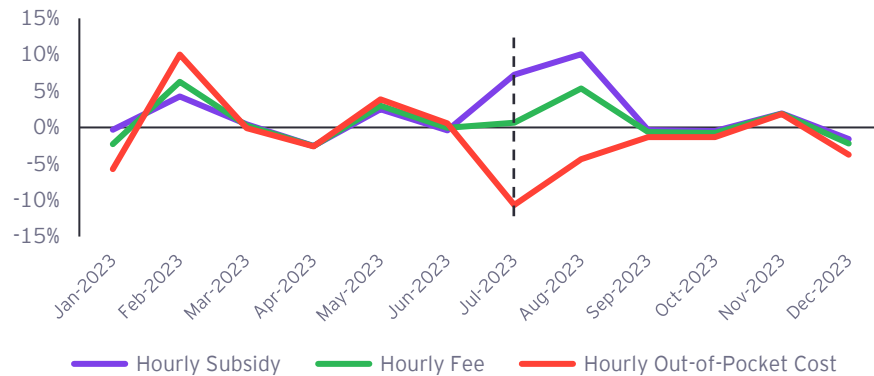
The FAL amendment is also coming off the back of a period of where the CCS and ACCS payments have been growing at a slower pace than fee rises, driving a rise in out-of-pocket costs in the pre-amendment period. As seen in Figure 17, this relationship reverses post amendment, with subsidies paid exceeding hourly fees charged, driving a reduction in out-of-pocket costs.

Figure 16 - Average Hourly Subsidies, Fees and Out-of-Pocket Costs, July 2022 to December 2023



Source: EY Analysis of Department of Education Administrative Data

Figure 17 - Month-Over-Month (MoM) Growth in Hourly Fees, Subsidies and Out-of-Pocket Costs



Source: EY Analysis of Department of Education Administrative Data

2.5 Analysis shows that one of the key objectives of the FAL amendments has been achieved, however with some regional variation

More affordable ECEC was the key objective of the legislation and the analysis of the data available suggests it has had the desired impact, at least in the short term:

- ▶ Out-of-pocket costs reduced immediately as the FAL amendments were implemented, across all care types.
- ▶ Reductions in out-of-pocket costs appear to remain consistent through to December 2023.
- ▶ Families at the low-to-middle income level saw notable reductions in their share of income devoted to Child Care. Families earning between \$40 000 and \$189 000 saw their share of income devoted to Child Care reduced by 1.1 to 1.3 percentage points post implementation.

- ▶ However, the relative reduction in out-of-pocket costs appear to be lower for Very Remote and Remote Australia compared to Inner and Outer Regional Australia, across all service types.
- ▶ Variations in total out-of-pocket costs across remoteness areas remain, with costs highest in Remote Australia and Major Cities, followed by Very Remote Australia. Total out-of-pocket costs are lowest in Inner Regional and Outer Regional Australia.

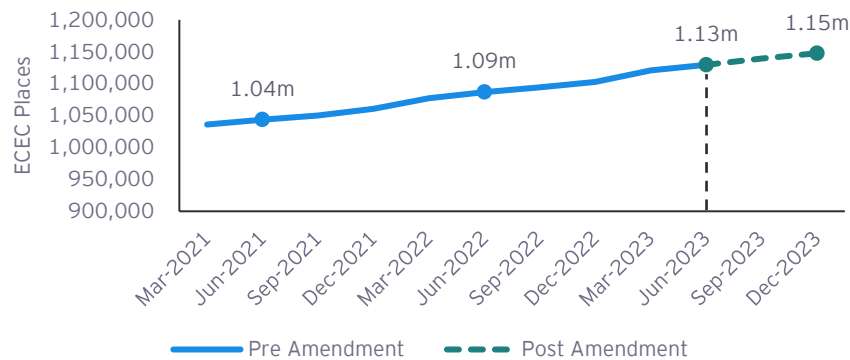
3. The creation of new and additional ECEC places

3.1 ECEC service provision continues to grow in line with pre-amendment trends

3.1.1 An additional 18,000 places have been added to the Australian ECEC market since the FAL amendments took effect

Development in CBDC places has grown steadily, with an additional 111 000 places being made available since the beginning of 2021, and 18 000 places since the implementation of the FAL amendments (see Figure 18).

Figure 18 - ECEC Places, CBDC (National)

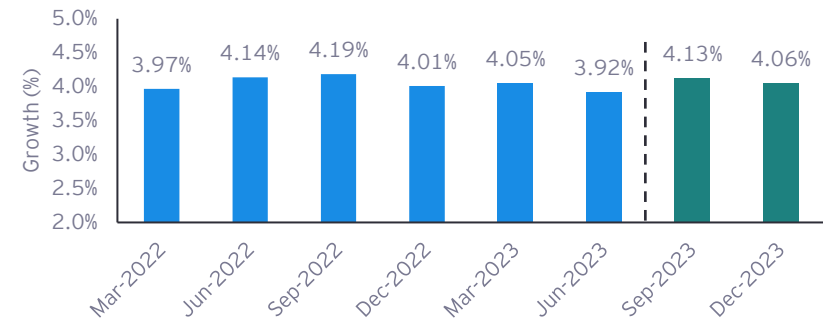


Source: EY Analysis of Department of Education Administrative Data

3.1.2 Growth in ECEC places is in line with previous trends and is not directly attributable to the FAL amendments

Although there has been an increase in ECEC places since the implementation of the FAL amendments, the growth observed is in line with previous years. There is no evidence to indicate that the FAL amendments have had a material impact on the creation of new places (see Figure 19).

Figure 19 - ECEC Places, CBDC, Australia, Year-over-Year (YoY) Growth (%) by Quarter

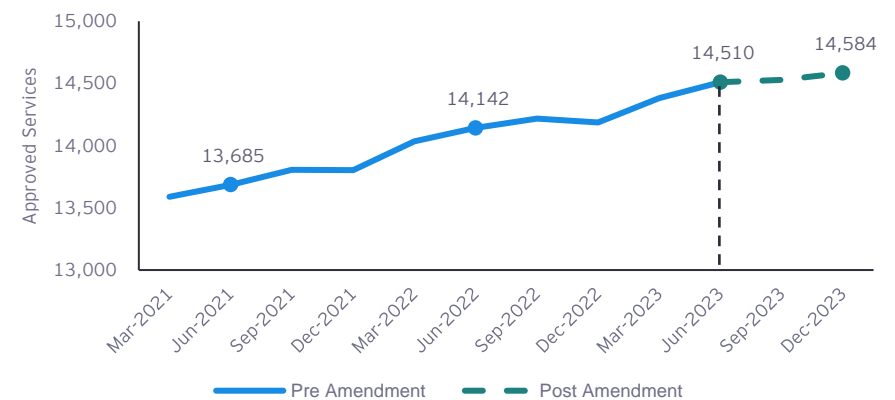


Source: EY Analysis of Department of Education Administrative Data

3.1.3 Growth in the number of Approved Services continues to grow steadily in line with pre-amendment trends

Strong growth in Approved Services has occurred since the end of the COVID-19 pandemic, with reasonable growth experienced since the FAL amendments came into effect (see Figure 20).

Figure 20 - Total Approved Services, Australia

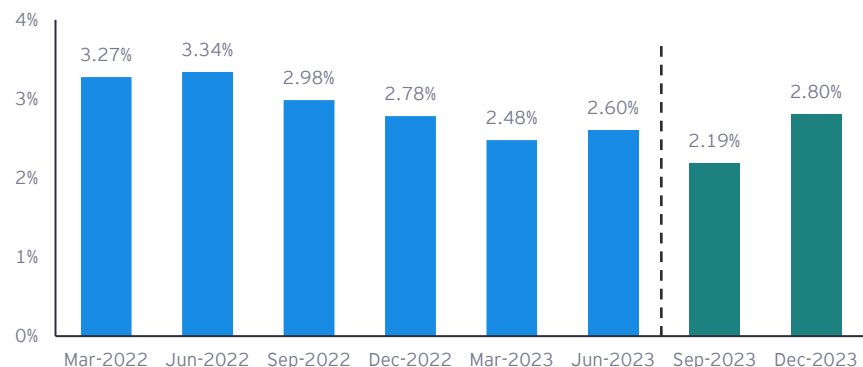


Source: EY Analysis of Department of Education Administrative Data

As with the growth in the number of places, the post amendment growth in Approved Services follows the existing trend, with yearly growth rates in

the September and December 2023 quarters in line with growth observed in previous quarters (see Figure 21).

Figure 21 - Year-on-Year (YoY) Growth (%) in Approved Services, Australia



Source: EY Analysis of Department of Education Administrative Data

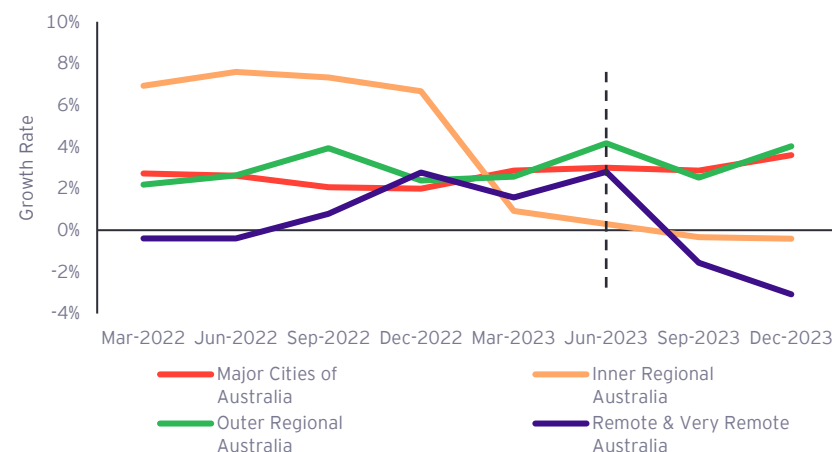
There is little evidence to suggest the number of approved services has increased as a result of the FAL amendments, within the timeframe of this analysis. While the December 2023 quarter appears to be reversing a long-term trend of declining growth, more data would be required to conclude whether this upward trend continues.

3.2 Growth in Approved Services varies by remoteness and care type

3.2.1 Remote and Very Remote Australia have experienced the least growth in approved Services

Growth in Remote and Very Remote Australia as well as Inner Regional Australia has declined throughout 2023 (see Figure 22). There are fewer approved services in these areas in December 2023 compared to December 2022.

Figure 22 - Year-on-Year (YoY) Growth (%) in Approved Services by Remoteness Area



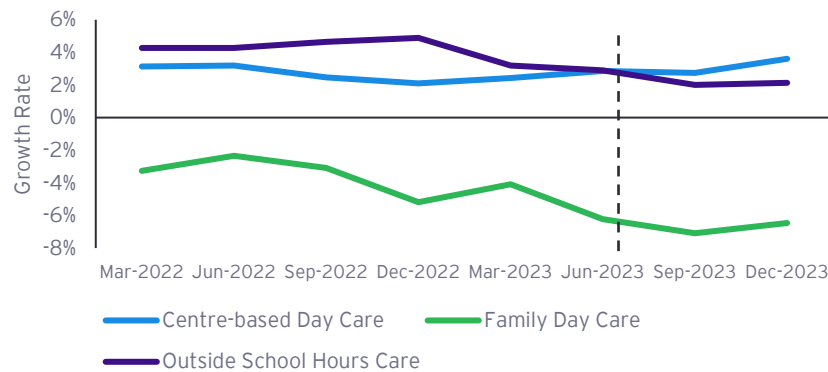
Source: EY Analysis of Department of Education Administrative Data

This may be driven by the increased cost of operating ECEC services in remote areas, as well as a difference in the care type mix.

3.2.2 Growth in Approved Services is not equal across all care types

Approved services in CBDC and OSHC have shown stable growth, while FDC services have been declining in recent years (see Figure 23).

Figure 23 - Year-on-Year (YoY) Growth (%) in Approved Services by Care Type



Source: EY Analysis of Department of Education Administrative Data

This trend may have been fuelled by the removal of approximately 200 FDC Providers who were proven to be seriously non-compliant or committing fraud.¹¹

The FDC sector has also cited some barriers to sector growth which are broader than regulation and compliance.¹¹ The DoE has recently launched an FDC Capability Trial, to be led by Family Day Care Australia. The trial will explore innovative approaches to strengthen the integrity of the FDC model and address several of the barriers cited by the FDC sector as barriers to growth so the full benefits of FDC can be realised, including increasing regional supply.

¹¹ DoE (2024), *Child Care Subsidy Policy & Program Branch data*, Australian Government Department of Education, provided 1 July 2024.

3.3 Any increase in ECEC places resulting from the FAL amendments will likely only become evident in the medium-to-long term

3.3.1 The creation of new and additional places is subject to strict regulatory processes which create barriers to entry and take time

As noted in the Senate Inquiry Report, addressing the affordability of ECEC “is moot if families are unable to access additional places in services”.¹² However, the FAL amendments are focused on demand-side financial supports (i.e. reducing the cost of services to consumers) rather than supply-side factors (i.e. increasing the supply of services and creating additional ECEC places). Nevertheless, to the extent that the FAL amendments have an impact on the creation of new and additional ECEC places, this will likely only become evident in the medium-to-long term due to the time required to establish or expand ECEC services.

In Australia, the creation of new and additional ECEC places is regulated by the Australian Children’s Education and Care Quality Authority (ACECQA) in partnership with state and territory governments. ACECQA is an independent national authority responsible for assisting governments to administer the National Quality Framework for children’s education and care. Key regulatory approvals required for the creation of new and additional places include:

- ▶ **Provider approvals:** Providers must first obtain approval to become an authorised ECEC provider. This approval in itself does not enable a provider to operate ECEC services but is a prerequisite which enables providers to apply for approval to operate specific premises.
- ▶ **Service approvals:** Specific approval is required to operate each ECEC premises. Applications can only be made by approved providers. Service approval for a given premises will specify a maximum number of children permitted to be using the ECEC services at a given time,

¹² Senate Committee (2022), *Inquiry Report on the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 [Provisions]*, Education and Employment Legislation Committee, November 2022, page 33, accessed 4 June 2024. Retrieved from aph.gov.au.

based on the physical size and design of the premises. Service capacity cannot exceed this maximum number (except in limited circumstances as permitted by law) and a service's actual capacity at a given time is also limited by workforce ratio requirements.

Determinations on provider and service approvals are made by the relevant state and territory regulatory authorities with oversight from ACECQA. 90% of services meet or exceed the National Quality Standard (NQS), with most service providers maintaining or slightly improving their NQS rating, and no major quality concerns identified nationally.¹³

3.3.2 Regulatory and workforce factors limit the speed at which ECEC service provision can grow

A number of different factors contribute to the ability of providers to increase the number of ECEC places available. For example:

- ▶ New and existing providers must navigate the complex regulatory environment, which can result in potential providers choosing not to enter the market or existing providers to exit.¹⁴ This is particularly challenging in regional areas and for providers which are Aboriginal Community-Controlled Organisations (ACCOs), which may have fewer resources to dedicate to meeting and reporting against regulatory requirements.¹⁵
- ▶ Training requirements impose additional barriers for existing or new workers, limiting both the number of educators and the number of available ECEC places. In regional and remote areas, workers are often expected to travel to undertake the required trainings or upskilling. For those unable to travel, for financial reasons or otherwise, they cannot commence or continue work in ECEC roles.¹⁶

- ▶ Access to full-time, stable employment opportunities is limited, which is a barrier for some workers. When ECEC demand fluctuates, a predominance of part-time or casual roles may exclude potential staff.
- ▶ As noted above, each ECEC premises has a defined maximum capacity for the number of children they can care for, which is primarily dictated by infrastructure. However, actual capacity is also dependent on workforce, as providers are required to maintain minimum staffing ratios. Ongoing workforce constraints have led to service providers imposing their own limit on the number of places they offer. These caps have resulted in an upper limit on available childcare places that is lower than the actual maximum that regulations permit. An industry survey found that 63% of the 700 survey responders stated they have imposed their own caps on the number of places they offer.¹⁷

These regulatory and workforce factors mean there is likely to be significant elapsed time between a provider commencing the process to establish new or additional places and those places being available; equally, workforce limitations may hinder existing providers from utilising the full capacity of their premises. To the extent that the FAL amendments have any impact on the creation of new and additional places, it is therefore unsurprising that there has been no observable impact on the net number of places within the relatively short analysis period.

¹³ ACECQA (2024), *NQF Snapshot Q1 2024 - National report on children's education and care services*, Australian Children's Education and Care Quality Authority, accessed 10 June 2024.

¹⁴ ACCC (Australian Competition and Consumer Commission) (2023), *Inquiry into child care market and supply of services - December 2023 Final Report*, ACCC, accessed 11 June 2024.

¹⁵ SNAICC (2023), *Submission to the Productivity Commission's inquiry into ECEC*, May 2023.

¹⁶ SNAICC (2023), *Submission to the Productivity Commission's inquiry into ECEC*, May 2023, pages 19-21.

¹⁷ Australian Childcare Alliance (ACA) (2023), *Submission to ACCC Childcare Inquiry*, October 2023. Retrieved from <https://www.accc.gov.au/>.

4. Changes in service gaps across Australia

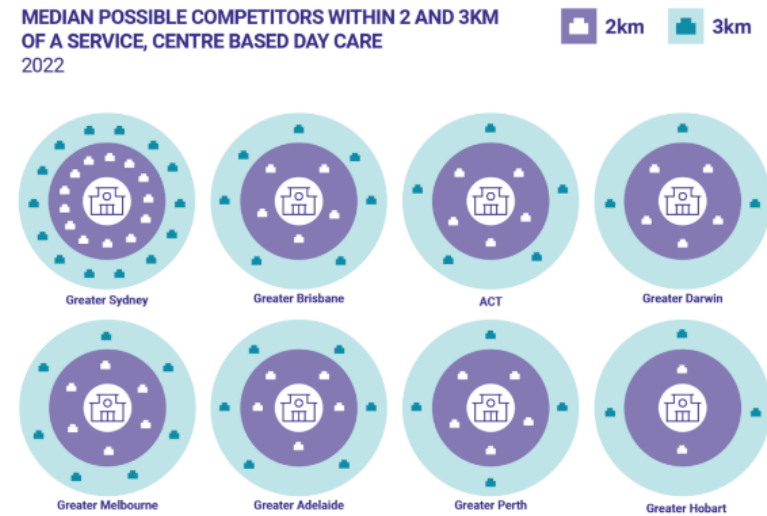
4.1 Market context: thin markets remain a challenge for addressing ECEC service gaps

4.1.1 Service gaps have been identified across multiple jurisdictions

The uneven supply of ECEC services across jurisdictions and geographic areas was identified as a factor within the broader ECEC sector affecting the access to services.¹⁸ The inconsistent spread of services meant that certain areas are faced with a lack of care providers or insufficient supply of services for families in need of ECEC.¹⁸

The investigation undertaken by the ACCC studied the concentration of service providers in major Australian cities, using a measure of the median possible competitors for centre based day care in 2km and 3km of a service provider.¹⁹ Figure 24 is extracted from the ACCC's research and summarises their findings, with initial analysis suggesting that service gaps were evident nationally. A lack of competition amongst ECEC providers during 2022 was noted in particular in Greater Hobart, Greater Darwin and Greater Perth.²⁰

Figure 24 - ACCC Interim Report (June 2023) - availability of ECEC



4.1.2 Service gaps have been driven by structural challenges

Service gaps are driven by more than high costs of ECEC and are often the result of a number of structural issues. The following structural issues are noted as major factors contributing to the inconsistent accessibility of services across jurisdictions:

- ▶ A complex regulatory environment for ECEC providers, particularly where national and state-level regulations diverge and place additional administrative burdens on service providers and families.²⁰
- ▶ A lack of culturally-informed providers in proximity to regional and remote area. Sector representatives noted that there are limited

¹⁸ Senate Committee (2022), *Inquiry Report on the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 [Provisions]*, Education and Employment Legislation Committee, November 2022, page 22, accessed 4 June 2024. Retrieved from aph.gov.au.

¹⁹ ACCC (Australian Competition and Consumer Commission) (2023), *Inquiry into child care market and supply of services - June 2023 Interim Report*, ACCC, accessed 11 June 2024.

²⁰ Productivity Commission (2023), *A path to universal early childhood education and care*, November 2023 Canberra, accessed 14 June 2024.

appropriate options available to Indigenous families in these areas or necessitate children travelling off Country.²¹

- ▶ Workforce training requirements that have restricted new and existing staff. Limited access to local training opportunities, especially ones that are culturally informed, excludes workers who are unable to travel for upskilling.²²

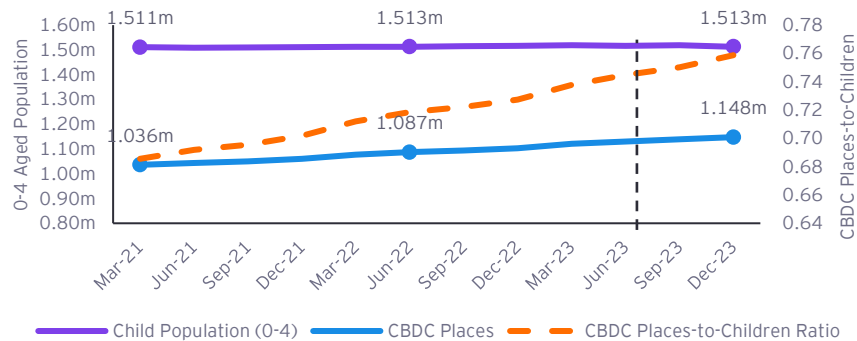
4.2 Overall supply of Centre-Based Day Care is rising relative to demand

In this section, the analysis focusses on service gaps for CBDC, as it is both the most utilised care type and the only type with data available on maximum places.

4.2.1 Supply of CBDC places has increased nationally since 2021, while the child-aged population has remained relatively stable

Total CBDC places have seen a significant increase of 10.8% between Q1 2021 and Q4 2023, growing from 1,035,957 to 1,147,721, averaging a 0.9% (10.2k places) quarterly rise (see Figure 25).

Figure 25 - Maximum total number of CBDC Places and 0-4 Child Population (Axis 1), and CBDC Places Ratio (Axis 2)



²¹ SNAICC (2024), *Pre-budget submission to the Australian Government*, SNAICC, released January 2024. Retrieved from <https://www.snaicc.org.au>.

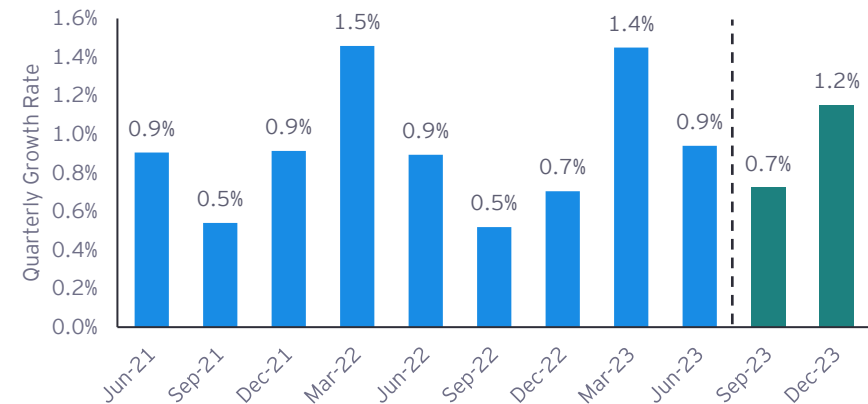
Source: EY Analysis of ABS Population Data and ACECQA National Register Data

The population of children aged 0-4 has been relatively steady, with a slight 0.1% increase from 1.511m to 1.513m, growing by 1,536 children over the same period. The growth in CBDC places coupled with stable child-aged population numbers has improved the places-to-children ratio from 0.69 to 0.76 per child.²³

4.2.2 A longer timeframe of data is required to provide conclusive evidence of the FAL amendment's impact on supply

The average growth rate has not changed substantially post amendment (see Figure 26). While there are significant differences in the average number of CBDC places before and after the implementation of the FAL amendments, based on the available data it is currently not possible to determine whether there has been a persistent shift as a result of the FAL amendments.

Figure 26 - Average Quarterly Growth Rate in CBDC Places-to-Child Population Ratio



Source: EY Analysis of ABS Population Data and ACECQA National Register Data

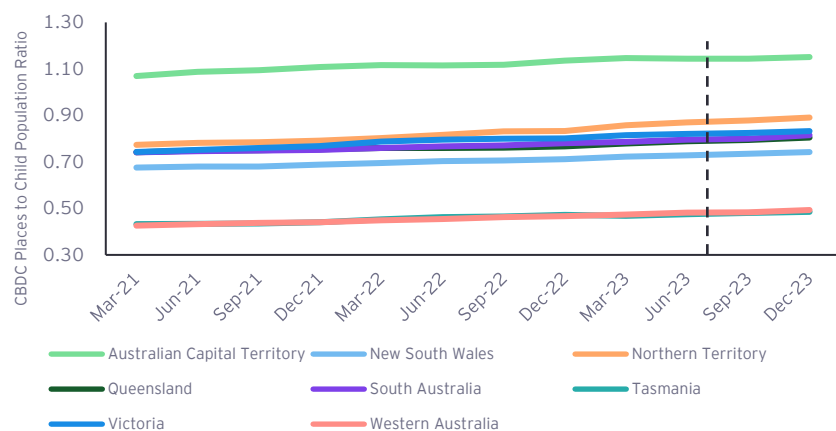
²² SNAICC (2023), *SNAICC Submission to the Productivity Commission's inquiry into ECEC*, May 2023.

²³ See Appendix B for ECEC places per population methodology.

The average quarterly growth rate of ECEC places relative to the child-aged population rose by 1.9 per cent from the June to December quarter in 2023 compared to 1.2 per cent growth in the same period in 2022. However, this observation should be treated with caution, as it may not accurately reflect underlying trends or causes. A longer period of observation will be required to establish whether the upward trend continues.

4.2.3 Between March 2021 and September 2023, the ratio of CBDC places to the child-aged population rose in every state and territory

Figure 27 - CBDC Places to Child Population Ratio, by State



Source: EY Analysis of ABS Population Data and ACECQA National Register Data

The ratio of CBDC places to the child-aged population rose modestly in every state and territory, indicating that availability of ECEC places is generally increasing.

Australian Capital Territory boasts the highest ratio, with 1.15 CBDC places per child as of December 2023. Western Australia and Tasmania have the lowest ratios, with only 0.49 places per child in the same period, equating to 2.03 children per place.

4.2.4 Quarterly growth rates of CBDC places relative to the child population varied significantly across Australia, with Western Australia experiencing the most notable and steady increase

Despite starting with one of the lower CBDC places-to-children ratios, Western Australia has consistently narrowed this gap, with an average annual growth between 1.2% and 1.4%. This improvement was due to a 15% rise in CBDC places and a 0.7% decrease in the child-aged population in Western Australia from Q1 2021 to Q4 2023.

While all states and territories showed progress (see Figure 28), the ACT was the exception, as its growth rate in the places-to-children ratio slowed from 1.2% in 2021 to just 0.1% by 2023. However, the ACT is notable for having the highest CBDC places per population ratio of any state or territory and is unique in having more CBDC places than children, which explains the slowing in growth.

Figure 28 - Average Quarterly Growth Rate in CBDC Places-to-Child Population Ratio, by State

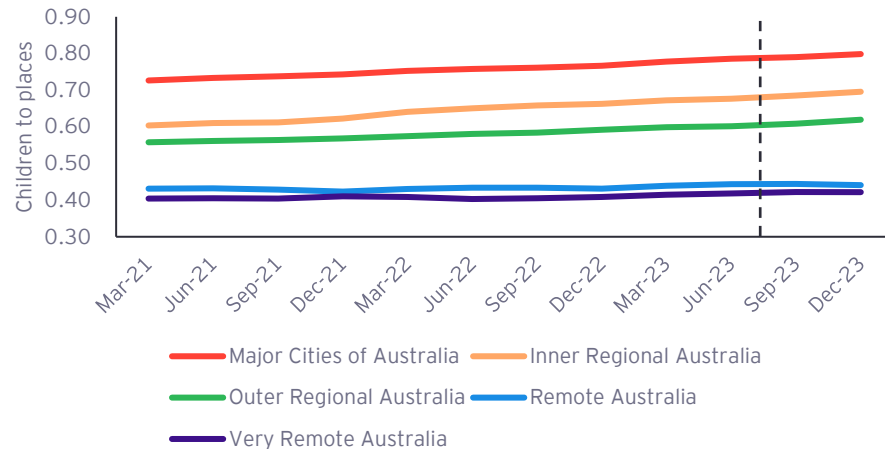


Source: EY Analysis of ABS Population Data and ACECQA National Register Data

4.2.5 Australia's Major Cities have the highest ECEC places-to-child population ratio, whereas Very Remote Australia has the lowest.

All Remoteness Areas have experienced a rise in CBDC places, reflecting a consistent upward trend in provision of care (see Figure 29).

Figure 29 - CBDC Places to Child Population Ratio, by Remoteness Area



Source: EY Analysis of ABS Population Data and ACECQA National Register Data

On average, Major Cities offer 0.76 places per child on average, the highest ratio, while Very Remote Australia offers the lowest, at 0.41 places per child.

4.2.6 ECEC places relative to the child population have risen over time in all remoteness areas - but growth in Remote and Very Remote Australia has been less than in other areas

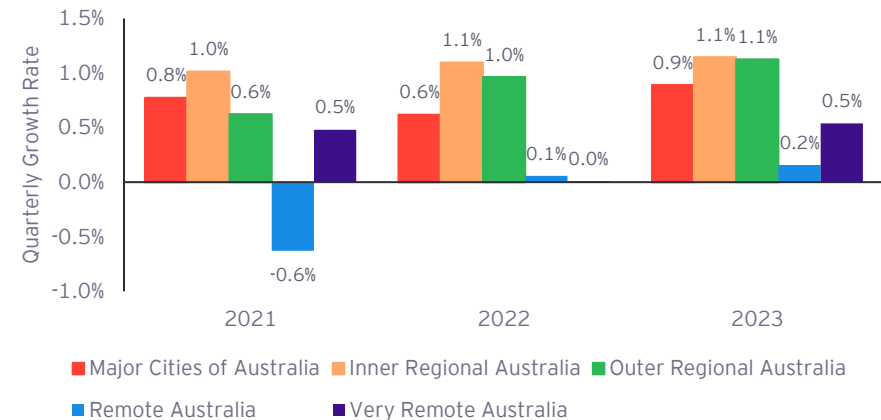
Inner Regional Australia experienced the most significant increase, with the ratio of places per child climbing from 0.6 to 0.7, a 15% jump, between the 2021 March quarter and 2023 December quarter. In contrast, Remote Australia saw the smallest increase, from 0.43 to 0.44 places per child, a modest 2% rise.

The notable growth in Inner Regional Australia mainly stems from a 15% expansion in ECEC places, while the child-aged population grew by just

0.1%. This indicates that providers are expanding capacity to meet existing family demand rather than in response to significant increases in the child-aged population.

The average quarterly growth rate of ECEC places to children has remained consistent across all areas, except for Very Remote Australia, which experienced no growth in 2022, and Remote Australia, where the quarterly average declined in the same year (see Figure 30).

Figure 30 - Average Quarterly Growth Rate in CBDC Places-to-Child Population, by Remoteness Area



Source: EY Analysis of ABS Population Data and ACECQA National Register Data

4.3 The demand-side interventions provided by the FAL amendments are unlikely to make significant improvements to service gaps without additional measures

While the data indicates a general increase in ECEC places relative to the child-aged population across all remoteness areas, sufficient information is not available at this point in time to determine whether this has addressed service gaps in particular localities.

Further, it is not possible to conclusively demonstrate that the FAL amendments have had an impact on the supply of ECEC places. Significant improvements to ECEC service gaps are unlikely to be addressed by the FAL amendments alone, as the amendments primarily provide for demand-side interventions that reduce the end cost to consumers of ECEC services. Addressing service gaps will likely require a broader range of policy levers, such as:²⁴

- ▶ ECEC sector wage reform (noting the Australian Government has committed to this and Fair Work Commission processes are currently underway).
- ▶ Additional measures to support staff retention, particularly in regional and remote areas (noting the FAL amendments arguably support staff retention through legislated discounted child care fees for staff engaged as educators).
- ▶ Training incentives and supports to encourage greater uptake of ECEC-related qualifications.
- ▶ Greater support for Indigenous -led services, particularly those in rural and remote areas.
- ▶ Measures aimed at reducing barriers to entry for new market participants, particularly in under-serviced or un-serviced areas.

²⁴ Senate Committee (2022), Inquiry Report on the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 [Provisions], Education and Employment Legislation Committee, November 2022, accessed 4 June 2024. Retrieved from aph.gov.au.

5. Changes to Indigenous children's attendance

5.1 Context: Indigenous children are underrepresented in receipt of ECEC subsidies

Indigenous children are currently underrepresented in receipt of the CCS. In 2022, only 4.3% of children whose families accessed the CCS identified as Indigenous, as compared with 6.1% of the birth to five years old population.²⁵

As described in Section 1.2, the FAL amendments introduced measures that now guarantee all Indigenous children 36 hours per fortnight of care subsidised to 90% for all families earning \$80 000 or less and regardless of whether families meet the activity test.²⁶

The intent of this measure is to address the developmental gap between Indigenous and non-Indigenous children by giving all Indigenous children access to ECEC that is consistent with the recommended amount for universal access to preschool.²⁷

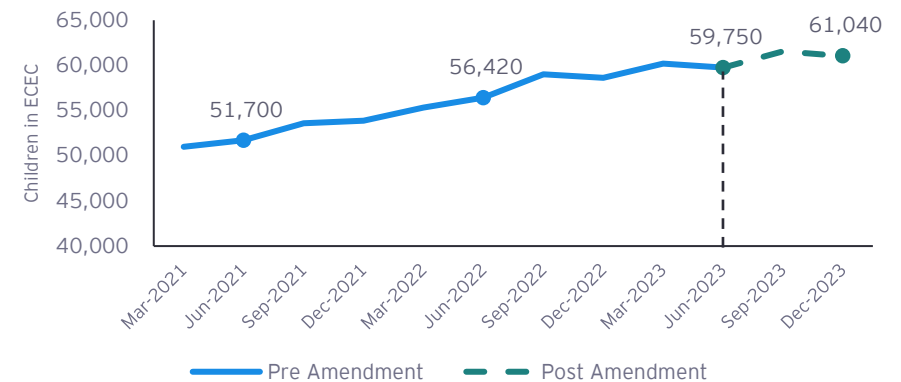
However, the analysis of Indigenous children ECEC attendance is complicated by the limited timeframe and data available for the analysis. While the report can comment on changes to attendance occurring in the six months following the amendment, it is difficult to attribute these changes to the FAL specially.

5.2 ECEC attendance rates for Indigenous children remains largely unchanged following the implementation of the FAL amendments

5.2.1 Growth in Indigenous ECEC attendance remained relatively flat following the implementation of the FAL amendments, with greater increases occurring in 2021 and 2022

The number of Indigenous children attending ECEC grew substantially in post-pandemic years but has since stabilised (see Figure 31).

Figure 31 - ECEC Attendance, Indigenous Children, Australia



Source: EY Analysis of Department of Education Administrative Data

Throughout 2022, the number of Indigenous children attending ECEC increased by 8-10% from 2021 attendance rates. These increases were well above the national average, which grew at rates between 2-5% in the same period (see Figure 32). The difference in these growth rates can be attributed to the varying rates of population growth within the 0-4 age

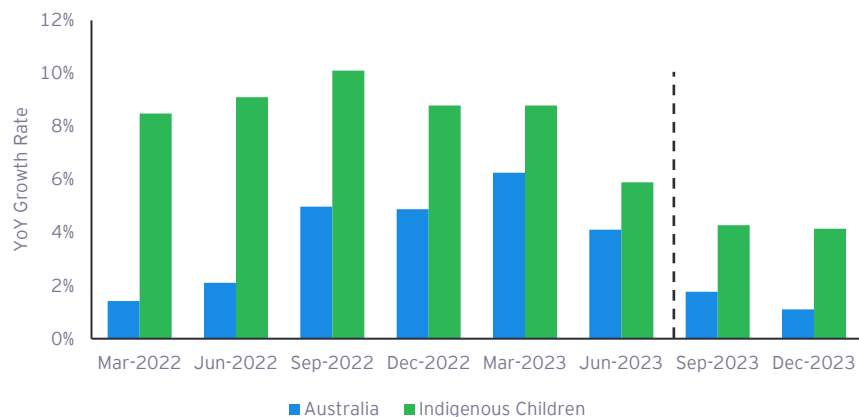
²⁵ Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 - Explanatory Memorandum, accessed 15 July 2024. Retrieved from aph.gov.au.

²⁶ Family Assistance Legislation Amendment (Cheaper Child Care) Act 2022, Schedule 3, accessed 26 June 2024. Retrieved from (legislation.gov.au).

²⁷ Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 - Explanatory Memorandum, accessed 15 July 2024. Retrieved from aph.gov.au.

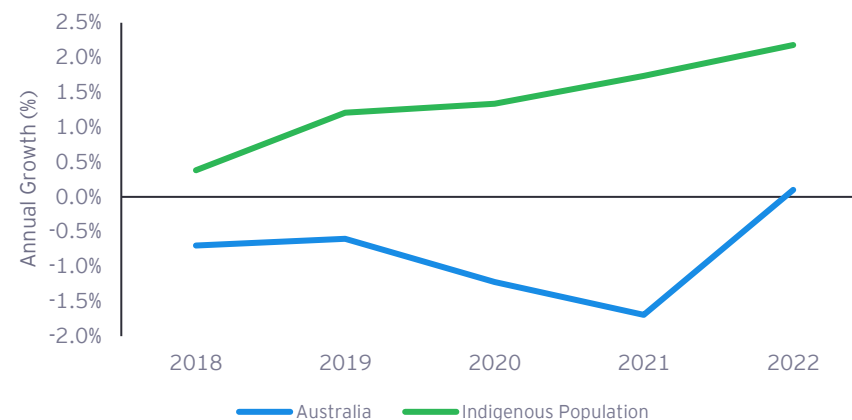
cohort among Indigenous children compared to the broader Australian average as shown in Figure 33.

Figure 32 - Year-on-Year (YoY) Growth (%) in Children Attending ECEC, Indigenous Children vs. Australian Average



Source: EY Analysis of Department of Education Administrative Data

Figure 33 - Annual Growth (%) of 0-4 Age Population, Australia vs. Indigenous Population²⁸



Source: EY Analysis of ABS Population Data (2023) and ABS Estimates and Projections of Aboriginal and Torres Strait Islander Australians (2016)

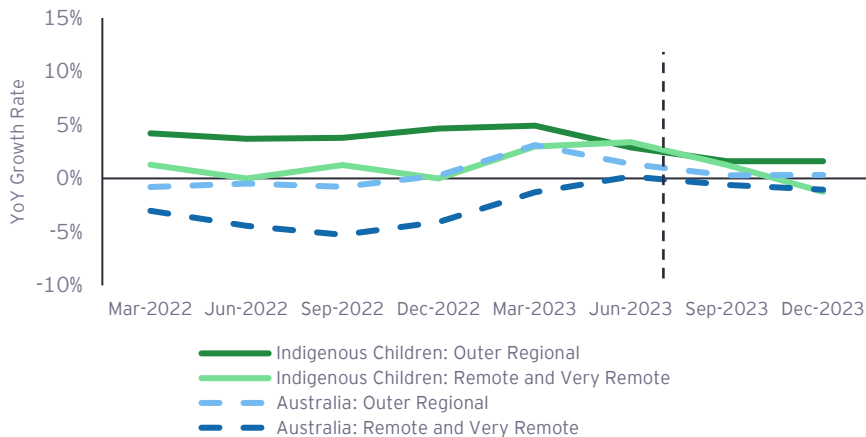
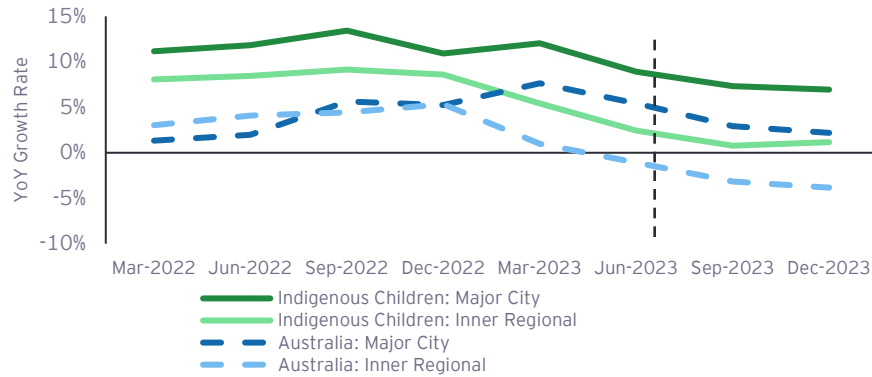
The growth in both Indigenous and non-Indigenous children attending ECEC appears to be stabilising, with growth stagnating prior to the amendments to the FAL coming into effect.

5.2.2 Indigenous ECEC attendance by Remoteness Area follows similar trajectories to the national average

Following the introduction of the FAL amendments, growth in attendance appears to be stabilising across most Remoteness Areas (see Figure 34). Attendance rates for Indigenous children in Major Cities and Inner Regional areas are higher than the national average and are growing in Inner Regional areas (see Figure 35).

²⁸ Indigenous 0-4 age cohort data is based on 2016 ABS projections. Updated data is expected to be available on 24 July 2024.

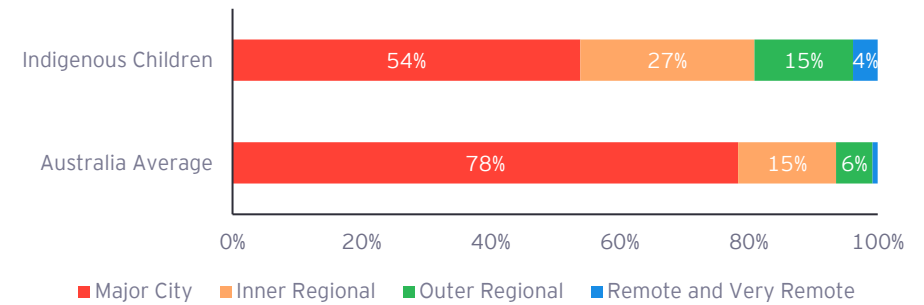
Figure 34 - Year-on-Year (YoY) Growth (%) in Children Attending ECEC by Remoteness Area, Indigenous Children vs. Australia Average



Source: EY Analysis of Department of Education Administrative Data

Attendance rates for Indigenous children in Outer Regional areas continues to remain higher than the national average. Growth rates for attendance for Indigenous children in Remote and Very Remote areas slowly declined in 2023 and, as at December 2023, are now below the national average.

Figure 35 - Distribution of Attendance by Remoteness Area, December Quarter 2023



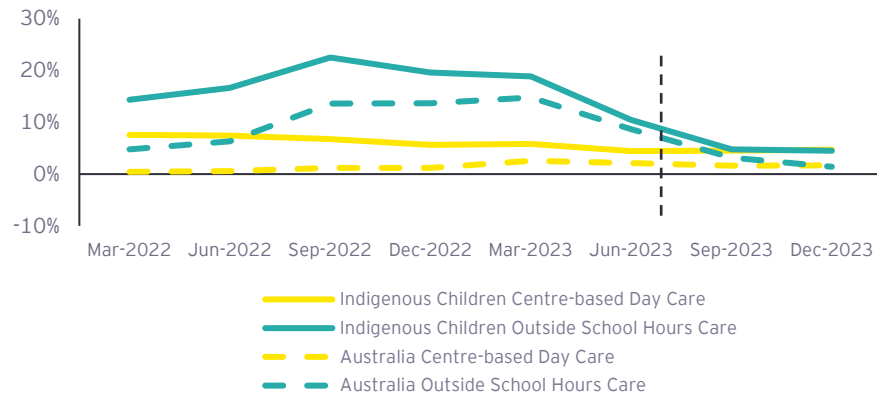
Source: EY Analysis of Department of Education Administrative Data

With a higher proportion of Indigenous children and families living in Inner and Outer Regional, Remote and Very Remote areas, the amendments to the FAL may have assisted in keeping attendance rates higher relative to the national average in most remoteness areas. However, for Indigenous children living in Remote and Very Remote areas, the decline in attendance rates suggests the FAL amendments may not be sufficient to overcome other barriers that may be preventing more Indigenous children from accessing ECEC.

5.2.3 Indigenous ECEC attendance by care type generally follows national trends, other than for IHC

Between March 2022 and December 2023, changes in Indigenous ECEC attendance by care type broadly followed national trends. Indigenous attendance at CBDC and OSHC increased, but with the rate of growth slowing broadly in line with the national trajectory (see Figure 36).

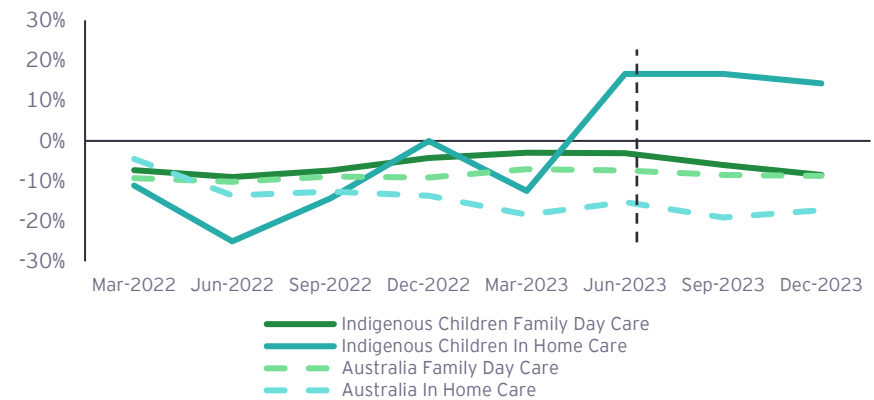
Figure 36 - Year-on-Year (YoY) Growth (%) in Children Attending ECEC, CBDC and OSHC, Indigenous Children vs. Australia Average



Source: EY Analysis of Department of Education Administrative Data

Similarly, Indigenous attendance at FDC declined broadly in line with the national trajectory (see Figure 37). However, the decline in Indigenous attendance at IHC slowed from mid-2022, and Indigenous attendance at IHC increased from mid-2023, contrary to the national trend which was a continued decline in IHC attendance (see Figure 37).

Figure 37 - Year-on-Year (YoY) Growth (%) in Children Attending ECEC, FDC and IHC, Indigenous Children vs. Australia Average



Source: EY Analysis of Department of Education Administrative Data

5.3 ECEC attendance by Indigenous children is related to factors additional to financial considerations

Whether Indigenous families decide to, or are able to, engage with ECEC services depends on more than the fee per hour and availability of services nearby. Additional factors include the access to ACCO-led services and local employment of Indigenous staff.

5.3.1 Access to ACCO-led ECEC services is an important factor in Indigenous children attendance rates

Sector representatives identified that Indigenous families are more likely to access ECEC services when they are provided by Indigenous-led organisations (i.e. ACCOs).

A number of structural barriers were noted to have hindered growth in Indigenous service providers. In their submission to the ACCC September Interim Report, SNAICC identified the following barriers:²⁹

²⁹ SNAICC (2023), *Submission to the ACCC September Interim Report*, October 2023, pages 10-12.

- ▶ Administrative barriers, due to administrative complexities of the CCS for both families and services.
- ▶ Funding mechanisms that are narrowly targeted to limited educational supports rather than the holistic supports provided by ACCOS.
- ▶ Stigma and fear associated with the ACCS, due to the requirements for a child to be defined as “vulnerable or considered to be at risk of harm, abuse or neglect,” creating fear of contact with culturally unsafe statutory systems.
- ▶ System orientation barriers resulting from a perception of services being primarily or only being available for working families.
- ▶ Market failure in socioeconomically disadvantaged areas.
- ▶ Competitive disadvantage of ACCOs in grant and tender processes, especially smaller ACCOs, as larger non-Indigenous organisations have the advantage of economies of scale that can mean lower costs of delivery but not culturally safe or responsive services.
- ▶ Inequitable funding across states and territories.
- ▶ The administrative burden of managing multiple and different financial reporting and acquittal processes.
- ▶ Lack of long-term funding certainty.

SNAICC’s submissions to the ACCC and PC inquiries highlighted that additional policy measures to address the above barriers are required to Indigenous children are also have equitable access to ECEC and the associated educational and or developmental outcomes.³⁰ The ACCC recommended sustaining and expanding supply-side support options for

³⁰ SNAICC (2023), *SNAICC Submission to the Productivity Commission’s inquiry into ECEC*, May 2023, page 20.

³¹ ACCC (Australian Competition and Consumer Commission) (2023), *Inquiry into child care market and supply of services*, ACCC, accessed 11 June 2024.

ACCOs that provide childcare and additional support services for Indigenous children and families’.³¹ Similarly, the PC highlighted the funding struggles experienced by ACCOs which impacts their ability to deliver the ECEC priorities of their communities.³²

5.3.2 Indigenous ECEC staff play a key role in culturally safe service provision

Research is clear that Indigenous families were more likely to engage with ECEC services that employed local Indigenous staff. Stagnant growth in the Indigenous ECEC workforce has likely contributed to the plateau in the increasing attendance of Indigenous children to some extent.

A lack of Indigenous ECEC staff was stated to be driven primarily by structural barriers, including, but not limited to, the following:³³

- ▶ Accessibility of training sessions, where upskilling often involved travel and costs that excluded potential workers from ECEC.
- ▶ A lack of Indigenous traditions, knowledge and culture integrated into ECEC accreditation and qualifications, or recognition or valuing of Indigenous knowledge and culture in the delivery of ECEC services.
- ▶ Existing institutional barriers that have discouraged participation of Indigenous people with the ECEC sector.

For further discussion of ECEC workforce challenges, please see Section 6.3. Staff shortages, and specifically shortages of Indigenous staff, constrain attempts to maintain and expand provision into rural and remote Indigenous communities.

³² Australian Government Productivity Commission, ‘*A path to universal early childhood education and care Draft report*’, p3. Retrieved from: <https://www.pc.gov.au/inquiries/current/childhood/draft>.

³³ SNAICC (2024), *Pre-budget submission to the Australian Government*, SNAICC, released January 2024. Retrieved from <https://www.snaicc.org.au>.

6. Number of ECEC educators and workforce gaps

As set out in chapter 2, the primary intention of the measures introduced by the FAL are to improve ECEC affordability and support parents and carers, particularly women, in their choice to enter the workforce or increase their workforce participation.³⁴

As a result, specific findings on whether the FAL amendments have addressed ECEC workforce challenges cannot be made. The analysis in this chapter shows that previous trends relating to workforce challenges remain unchanged and identifies additional factors that may be contributing to ongoing ECEC workforce shortages.

6.1 ECEC workforce challenges have persisted

As discussed in sections 3.3 and 4.3, a primary barrier to increased ECEC services provision is workforce shortages.

The Senate Inquiry Report (2023) stated that in 2022, there were approximately 7 000 vacancies recorded across the ECEC sector. Burnout, a lack of recognition and inadequate wages were identified as key factors, with ECEC educators paid 20 to 30% less than primary school teachers.³⁵

Attracting and maintaining staff continues to challenge service providers. Consultations with government and ECEC sector representatives highlighted this as a priority for most service providers.

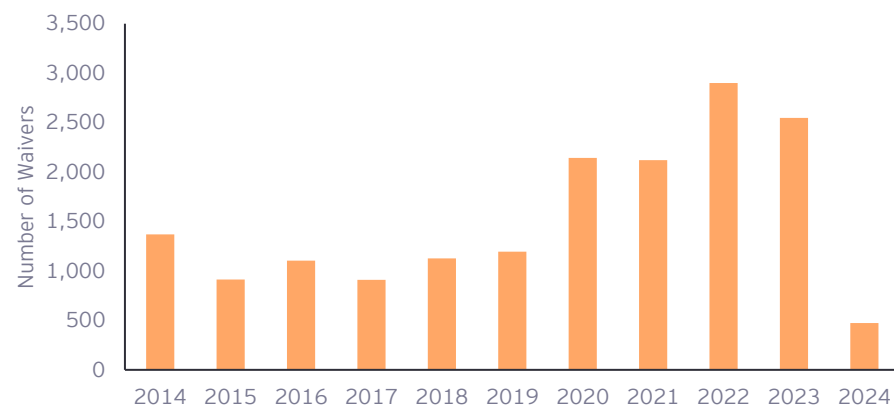
³⁴ House of Representatives (2022), *Explanatory Memorandum – Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022*, Education and Employment Legislation Committee, Commonwealth of Australia, accessed 7 June 2024. Retrieved from aph.gov.au.

³⁵ Senate Committee (2022), *Inquiry Report on the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 [Provisions]*, Education and Employment Legislation Committee, November 2022, accessed 4 June 2024. Retrieved from aph.gov.au.

6.1.1 A majority of waivers issued in the ECEC sector are related to staffing shortages

Under the national regulatory framework, waivers can be granted to enable providers to maintain their level of service to families while dealing with special circumstances or unexpected events.³⁶ Regulatory authorities (with oversight from ACECQA) can grant waivers in two categories; 1) staffing waivers, and 2) physical environment and staffing waivers.³⁷ Analysis of the ACECQA waiver data showed 18 212 waivers were issued between January 2012 to March 2024. Waivers ranged in duration from 3 to 12 months (see Figure 38).

Figure 38 - Number of Waivers Issued from 2014 to 2024³⁸



Source: EY Analysis of ACECQA Waiver Data

Note: Waiver data for 2024 is only inclusive of the months January to March

18 170 waivers (99.6%) were provided specifically in relation to staffing, while the other 42 waivers related to a combination of physical or

³⁶ <https://www.acecqa.gov.au/resources/applications/applying-for-a-waiver>.

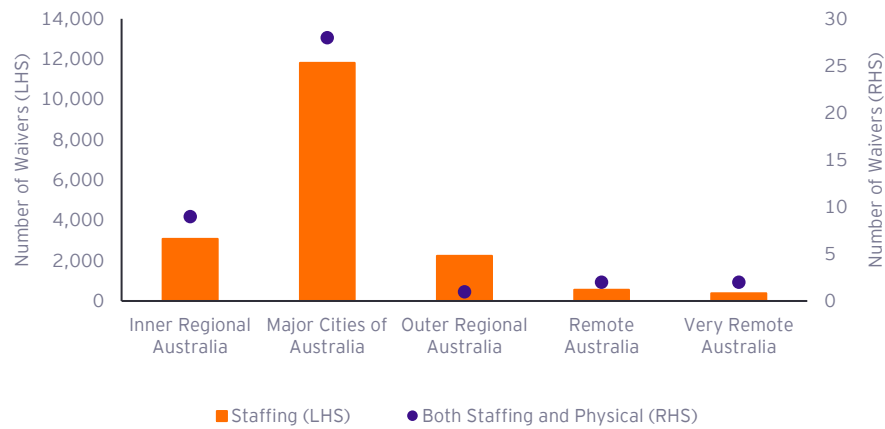
³⁷ ACECQA (2024), *National Quality Agenda IT System Waivers Data*, Australian Children's Education and Care Quality Authority, released on 28 May 2024.

³⁸ Note: Data for 2024 includes only that available from January, February and March, thus not representative of a full year of data.

environmental factors and staffing exemptions.³⁸ Within the ‘Staffing’ category, waivers issued were primarily for exemptions to general educator qualification thresholds and/or early childhood teacher requirements.

It is noted that a significant increase in staffing-related waivers correlated to the beginning of the COVID-19 pandemic, suggesting that the pandemic has had a sustained impact on workforce in the ECEC sector. As at 1 April 2024, 9.1% of services had a staffing waiver, generally for not having access to a qualified early childhood teacher.³⁹

Figure 39 - Distribution of Waiver Categories, by Remoteness Area



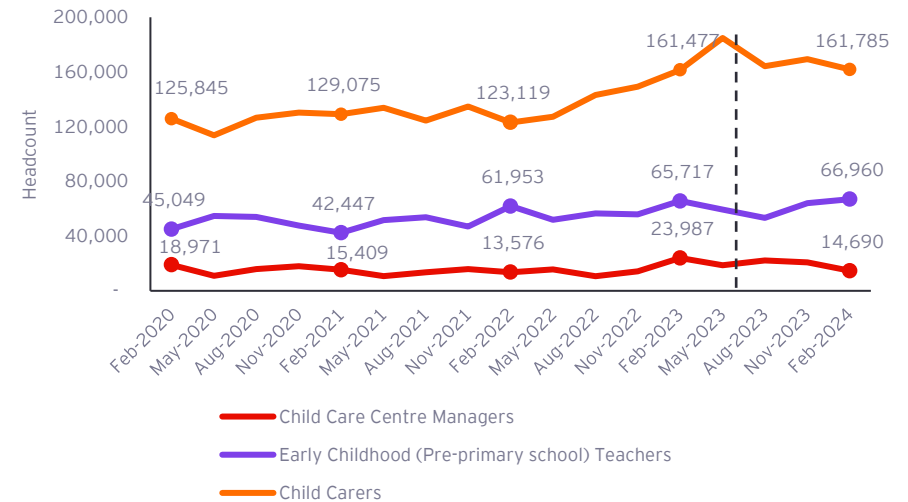
Source: EY Analysis of ACECQA Waiver Data

6.2 Trends relating to employment and vacancies of key ECEC occupations have remained steady

6.2.1 Employment grew substantially in key ECEC occupations post-pandemic but has largely remained stable since the implementation of the FAL amendments

As of February 2024, there were 245 000 Educators (Child Carers),⁴⁰ Early Childhood Teachers (ECTs) and Child Care Centre Managers employed in the workforce, an increase of 14 700 (6.4%) from February 2023 (see Figure 40). Although these levels showed a large increase from 2022 to 2023, workforce levels have largely plateaued since.

Figure 40 - Employment of ECEC Occupations⁴⁰, Australia



Source: EY Analysis of ABS Labour Force Data

Educators saw the most significant increase between February 2022 and 2023, but employment levels have remained largely unchanged into 2024.

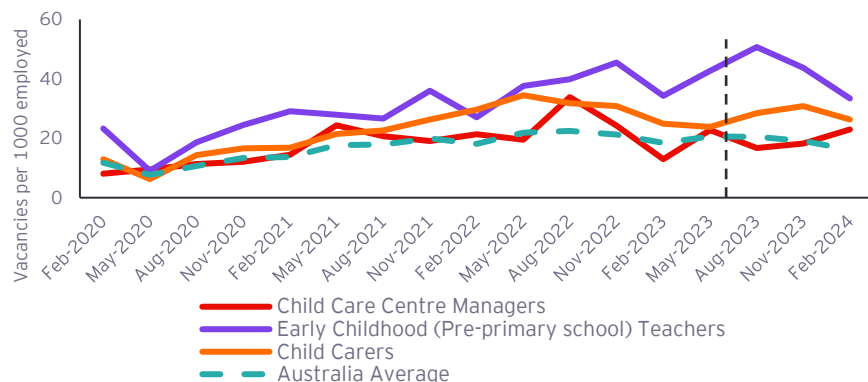
³⁹ DoE (2024), Child Care Subsidy Policy & Program Branch data, Australian Government Department of Education, provided 1 July 2024.

⁴⁰ Occupations follow the Australian and New Zealand Standard Classification of Occupations (ANZSCO).

ECTs saw a large increase between February 2021 and 2022, but employment levels have plateaued since 2022.

These occupations have continuously been in high demand throughout recent years. In August 2023, there were 50 vacancies per 1 000 employed ECTs in Australia, the highest level observed in the past four years. While this pressure has since eased, the vacancy-to-employment ratio (vacancies per 1 000 employed) for both ECTs and educators are consistently above the national average (see Figure 41). A high vacancy-to-employment ratio indicates a tight labour market with high demand relative to labour supply. A heightened ratio will continue to put pressure on the ability for ECEC providers to increase the number of available places.

Figure 41 - Vacancies per 1 000 Employed in ECEC Occupations, Australia



Source: EY Analysis of ABS Labour Force Data

Finally, the number of centre managers increased between February 2022 and 2023, with employment levels decreasing between February 2023 and 2024.

6.2.2 ECEC workforce challenges will remain unless ECEC wages are improved

ECEC wages remain lower than alternative employment options. Industry respondents identified that “burnout,” a perceived “lack of recognition” and “inadequate wages” were contributing factors, with ECEC educators paid 20 to 30% less when compared to primary school teachers.⁴¹

Stakeholder input highlighted that ECEC wages were lower than alternative employment options, which makes attracting potential workers to the sector challenging. Consultations noted the “lack of competitive wages [is] not enticing high school students to enter ECEC work or programs”. The Australian Childcare Alliance (ACA)’s report into wages within the ECEC sector noted that providers, unions and peaks had called for an increase to educator wages by between 15 to 25%.⁴²

The Australian Government has committed to wage reform for the ECEC sector, with funding committed in the 2024 Federal budget for this purpose. Wage increases will be determined upon the conclusion of relevant Fair Work Commission processes, which are currently underway. It is noted that, while the planned wage increases for the ECEC sector may assist with the easing of workforce challenges over time, they are likely to have an impact on ECEC fees.⁴²

6.3 There remain significant workforce gaps within the Indigenous ECEC workforce

Further to discussion in section 5.3, supporting the connection of Indigenous children to Country and history is a crucial component of their childhood and is foundational for holistic ECEC care. However, within the ECEC sector, accreditation and qualification processes often do not include specific learning of Indigenous culture.⁴³ In the submission from SNAICC to the ACCC’s Inquiry into the ECEC market, recruiting workers to meet the current demands is “an ongoing challenge” that constrains expansion of

⁴¹ Senate Committee (2022), *Inquiry Report on the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 [Provisions]*, Education and Employment Legislation Committee, November 2022, accessed 4 June 2024. Retrieved from aph.gov.au.

⁴² Australian Childcare Alliance (ACA) (2023), *The cost and impact of different funding approaches to increase ECEC sector wages*, report by Dandolo Partners for ACA, accessed 24 June 2024.

⁴³ SNAICC (2024), *Pre-budget submission to the Australian Government*, SNAICC, released January 2024. Retrieved from <https://www.snaicc.org.au>.

service provision, especially in “rural and remote Aboriginal and Torres Strait Islander communities”.⁴⁴ SNAICC noted that in these areas, the cost of upskilling is a huge issue for ACCO ECEC services that “lack easy access to training centres.”⁴⁴

6.3.1 Barriers to engagement of Indigenous staff with ECEC work persist

As the peak body for ECEC for Indigenous children, SNAICC provided extensive insights into the current state of the sector for Indigenous staff and families. The SNAICC submission to the PC inquiry into ECEC, as well as input from ECEC sector representatives, identified several factors that have deterred Indigenous people from taking up ECEC employment, including:⁴⁵

- ▶ Stressful working conditions that are exacerbated while working with children and families who have experienced trauma and/or have complex care needs.
- ▶ A lack of culturally informed training available from accredited training institutions, which can deter Indigenous people from pursuing ECEC careers.
- ▶ Travel requirements for the pursuit of training and accreditation that act as a barrier for those unable to travel.
- ▶ The transient nature of some communities, particularly those in remote areas, presents difficulties for retaining staff.
- ▶ Unstable staffing and high staff turnover undermine the trust and long-term relationships that are crucial to service delivery success.

In addressing the above challenges that currently face Indigenous providers and families, the sector will also support growth in the size of the Indigenous ECEC workforce. SNAICC identified that Indigenous-led service delivery and self-determination amongst the Indigenous workforce is

⁴⁴ SNAICC (2023), *SNAICC Submission to the ACCC inquiry into ECEC markets*, October 2023, page 12.

⁴⁵ SNAICC (2023), *SNAICC Submission to the Productivity Commission's Inquiry into the ECEC sector*, SNAICC, released May 2023.

critical for “the provision of culturally safe and appropriate services”.⁴⁶ This concurrently facilitates the employment of local Indigenous staff who “have a commitment to and connection with their local community” and enables mutually beneficial outcomes for children and staff.⁴⁶

6.4 Broader workforce measures are required to deliver required growth in the ECEC workforce

Although national employment rates for ECEC workers have improved, workforce shortages will remain challenging in a tight ECEC labour market.

The analysis shows that there is little evidence to suggest that employment across ECEC occupations has increased or that labour market conditions for these workers have eased as a result of the implementation of the FAL. Without growth in the ECEC workforce, the benefits of increased affordability of ECEC may not be realised. Although increased usage has an impact on the ability of ECEC providers to recruit and retain educators, addressing workforce shortages across the ECEC sector requires additional policy reform.

To support achievement of the FAL amendments' objectives, several broader policies have been implemented to improve staff retention, build supply and strengthen professional experience in the ECEC sector. Policies targeted to ECEC workforce, as opposed to CCS cost support for consumers, would assist in addressing workforce gaps as they provide incentives for supply-side growth. As noted by the Productivity Commission, “implementing these changes and observing their effects takes a long time”.⁴⁷ Since all parts of the ECEC sector are interconnected, reforms to address sector-wide issues will require a period of time for educators and service providers to “respond and adapt”.⁴⁷

⁴⁶ SNAICC (2023), *SNAICC Submission to the Productivity Commission's Inquiry into the ECEC sector*, SNAICC, released May 2023.

⁴⁷ Productivity Commission (2023), *A path to universal early childhood education and care - Draft Report*, November 2023 Canberra, accessed 14 June 2024.

7. Changes to the workforce participation

7.1 Access to affordable ECEC is a key barrier for labour market participation.

The purpose of the FAL amendments was to give effect the Australian Government's Plan for Cheaper Child Care, fulfilling commitments in the 2022 Federal election to make ECEC more affordable for 96 per cent of families currently using ECEC, with no families being worse off.⁴⁸ These measures improve ECEC affordability, helping to ease cost of living pressures facing families, and in turn, supports parents and carers, particularly women, in their choice to enter the workforce or increase their workforce participation.⁴⁹

The ABS identifies caring for children as one of the largest barrier to workforce participation.⁵⁰ Second only to long-term health conditions or disability, childcare arrangements were noted as an obstacle by 24 per cent of those not employed.⁵⁰

Caring for children disproportionately impacts women in comparison to men. Foregoing employment to care for children disproportionately hinder engagement in the labour market by women. The ABS found childcare was the main barrier to employment for 36 per cent of women, however, was only noted to impact 7.3 per cent of men.

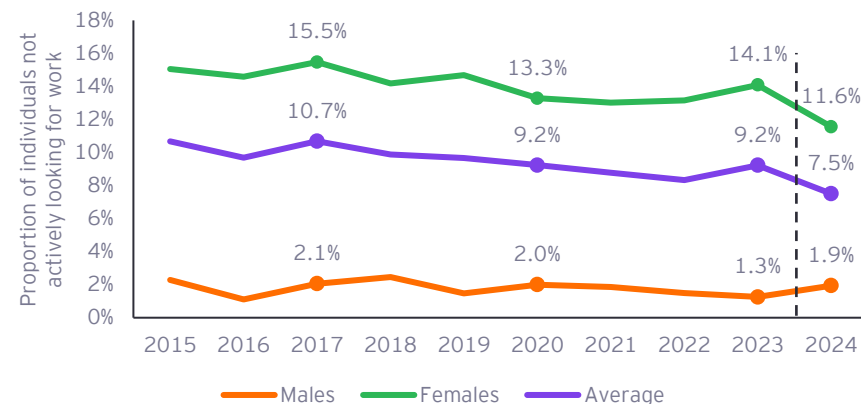
*"Female participation in the labour force is at record high levels," and yet "childcare remains the key for increasing the opportunities for women to participate in the labour market (ABS, 2023)."*⁵¹

⁴⁸ Australian Labor Party (2022), *Summary of proposal - Cheaper Child Care*, Parliamentary Budget Office, 2022, Canberra. Retrieved from pbo.gov.au.

⁴⁹ House of Representatives (2022), *Explanatory Memoranda - Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022*, Education and Employment Legislation Committee, Commonwealth of Australia, accessed 7 June 2024. Retrieved from aph.gov.au.

As at 2024, 11.6% of women who are not actively looking for work indicate this is due to ECEC-related reasons, compared to just 1.9% of men (see Figure 42).

Figure 42 - Proportion of individuals who are not actively looking for work due to ECEC-related reasons



Source: EY Analysis of ABS Participation, Job Search and Mobility Data

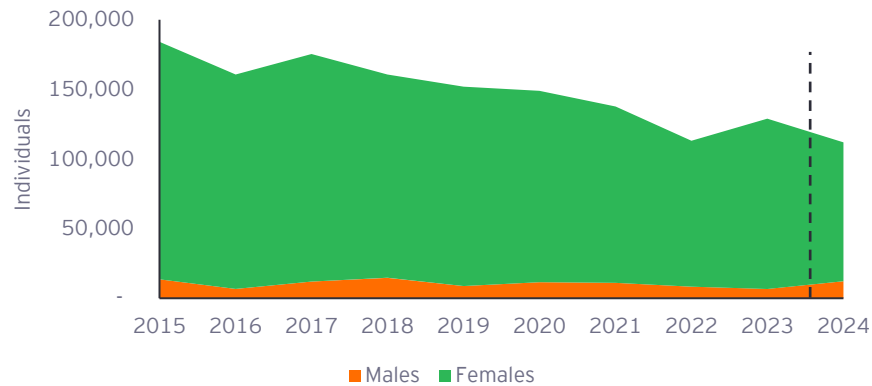
Notably, however, there has been a marked shift in this pattern, with a substantial reduction in the number of women citing ECEC as the reason for not actively looking for work in 2024.

The total number of women citing ECEC as the reason for not actively looking for work has been declining over time, and is estimated to be 99 882 individuals as at February 2024, down from 170 626 in 2015, according to data from ABS' Participation, Job Search and Mobility survey (see Figure 43).

⁵⁰ ABS (Australian Bureau of Statistics) (2023), *Health and caring for kids most common barriers to work*, ABS, accessed 17 June 2024.

⁵¹ ABS (2023), *Childcare still largest barrier to female participation*, ABS, 2023. Retrieved from <https://www.abs.gov.au/media-centre>.

Figure 43 - Individuals not actively looking for work due to Child Care, by Gender



Source: EY Analysis of ABS Participation, Job Search and Mobility Data

However, decreasing the cost is only one aspect of making ECEC more accessible for families to support different decisions around increased workforce participation. To alleviate access to ECEC as an obstacle to entering or increasing hours of paid work, the ABS noted alternative measures such as part-time work opportunities contribute to greater labour force participation.⁵¹

7.2 Evaluating the impact of FAL amendments on workforce participation

The FAL amendments were enacted to make ECEC more affordable and consequently provide support for parents and caregivers to participate more or potentially re-enter the workforce. However, the varied duration it takes for individuals to re-engage with the labour market or to expand their working hours introduces a layer of complexity to the short-term assessment of the amendment on workforce participation.

The Reserve Bank of Australia's bulletin on long-term unemployment from 2010 to 2020 reveals that approximately 23% of unemployed Australians move into employment each month⁵². However, those in long-term

unemployment are only half as likely to secure a job compared to the short-term unemployed. This highlights the challenges faced by individuals exiting unemployment and the time needed to transition, which in turn highlights the challenges in evaluating the impact of the FAL amendments within a 6-12-month timeframe.

To understand the potential shorter-term impacts of the FAL amendments on workforce participation, this report will instead focus on evaluating changes to activity hours and attended ECEC hours as proxies for workforce participation.

Activity hours reflect the hours of 'recognised activity' undertaken by a parent or caregiver, which can involve paid or unpaid work, unpaid work experience/internship, doing an approved course of education/study or actively looking for work. For the purposes of this analysis, a change in activity hours by a parent or caregiver is assumed to lead to increased work and therefore increased participation. In a similar vein, an increase in attended hours by children also alludes to more time available for parents and caregivers to undertake work, and likewise an increase here is assumed to have a positive bearing on workforce participation.

Lastly, the report will seek to evaluate broader labour market data and assess whether there are noticeable changes to participation rates post amendment.

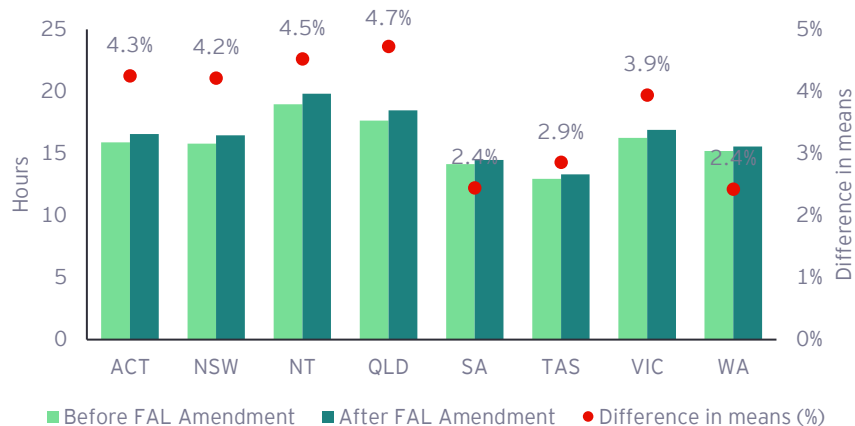
7.3 Limited evidence of a change in ECEC attendance following the FAL amendment

Although there has been a rise in the average weekly hours of child attendance across all services post-amendment, it is important to note that these increases are not statistically significant. The data shows a range of upticks, from a 4.7% increase in Queensland (from 17.6 to 18.5 hours per week) to a 4.5% rise in the Northern Territory (from 19.0 to 19.8 hours per week), and smaller increments of 2.4% in both South Australia (from 14.1

⁵² RBA 2020, [Long-term Unemployment in Australia | Bulletin - December 2020 | RBA](#).

to 14.5 hours per week) and Western Australia (from 15.2 to 15.6 hours per week) (see Figure 44).

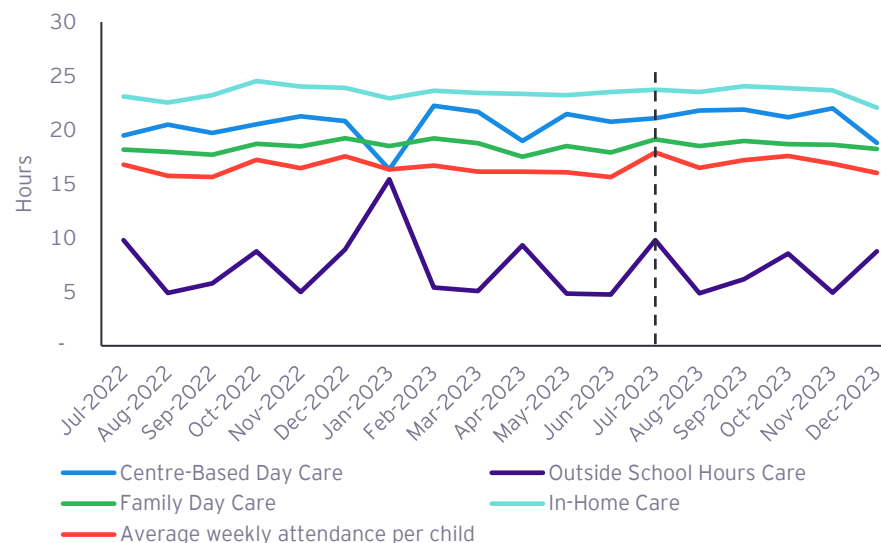
Figure 44 - Average hours of ECEC services attended per week per child by state, before and after FAL Amendments, all care types



Source: EY Analysis of Department of Education Administrative Data

Figure 45 shows that IHC has the highest average hours of ECEC attendance per child (23.5 hours per week), while OSHC has the lowest level (7.5 hours per week), but also with the most variability according to school holidays. While there was an increase in the average attended hours before and after the implementation of the FAL, from 16.4 to 17.0 hours per child per week, this change is not considered to be statistically significant.

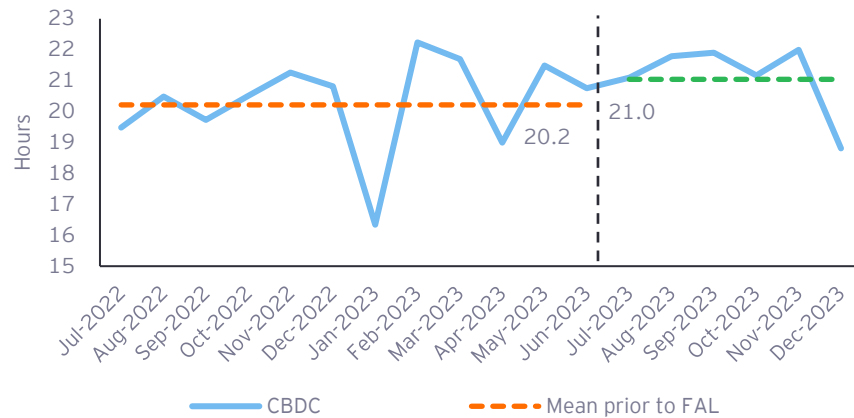
Figure 45 - Average hours of ECEC services attended per week per child, by service type



Source: EY Analysis of Department of Education Administrative Data

Post-amendment, attendance at CBDC services has seen a slight uptick, with the average weekly hours per child climbing from 20.2 to 21.0, as illustrated in Figure 46. Yet, this change is not statistically significant, leaving the interpretation of these findings inconclusive. More time will be required for a complete assessment.

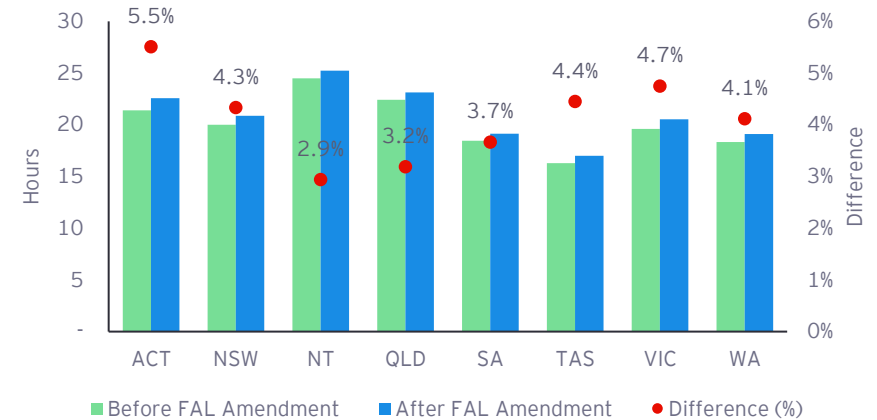
Figure 46 - Average Hours of Weekly Attended at CBDC, Per Child



Source: EY Analysis of Department of Education Administrative Data

Between November 2022 and December 2023, an increase in CBDC attendance hours was seen nationally, with the biggest increase in average attendance hours per child in ACT and Victoria, which increased by 5.5% and 4.7%, respectively (see Figure 47). However, analysis reveals no significant difference in the average hours attended or the rate of change in attendance hours before and after the implementation of the FAL, both at the state/territory and national levels.

Figure 47 - Average Hours of Weekly Attended at CBDC Per Child by State, Before and After the FAL Amendments



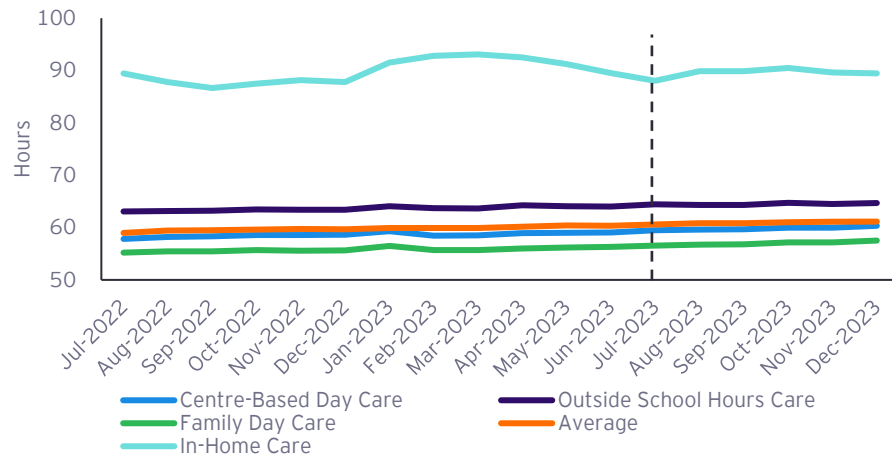
Source: EY Analysis of Department of Education Administrative Data

7.4 Increases in average activity hours for ECEC are modest and in line with previous trends

While average reported activity hours have been increasing following the implementation of the FAL amendments, they are largely continuing the trend observed pre-amendment.

Fortnightly activity levels have been increasing across all care types since July 2022 as highlighted in Figure 48. Average family fortnightly activity hours have increased by 3.6% amongst participants who used services other than IHC between July 2022 and December 2023. Those IHC only increased their fortnightly activity hour by 0.04% in the same period, but experienced greater volatility in their hours.

Figure 48 - Average Fortnightly Family Activity Hours, by Service Type



Source: EY Analysis of Department of Education Administrative Data

Families using IHC had the highest level of fortnightly activity hours, peaking in March 2023 (93.1 hours per fortnight), whereas families using FDC had the lowest fortnightly activity hours.

In December 2022 and January 2023, the average activity hours initially increased and then declined, aligning with the school holiday period. This trend was particularly evident among families utilising services such as OSHC, which exhibited greater fluctuations in average activity hours throughout the year.

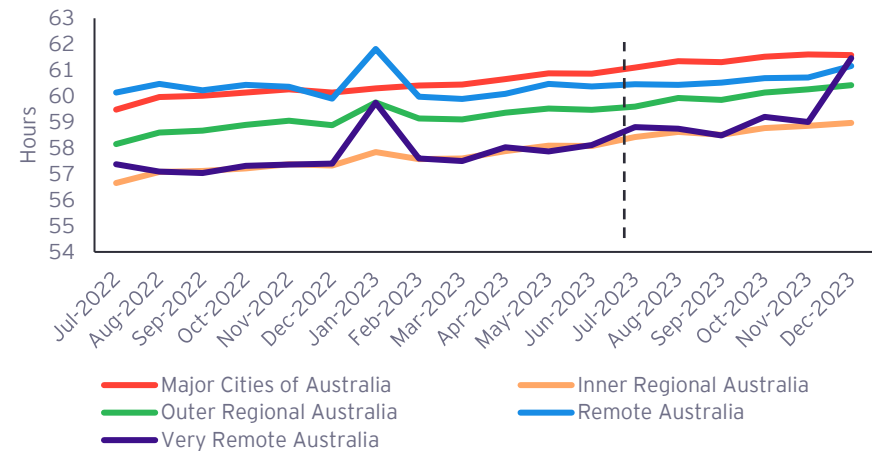
The operation and effectiveness of the activity test was noted in focus group sessions and within parliamentary inquiry submissions to be a common barrier faced by parents wanting to commence or increase their use of services.⁵³

⁵³ Senate Committee (2022), *Inquiry Report on the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 [Provisions]*, Education and Employment Legislation Committee, November 2022, accessed 4 June 2024. Retrieved from aph.gov.au.

While all remoteness areas have seen an increase in their average family activity hours, Remote and Very Remote Australia experience volatility throughout the year (see Figure 49). Major Cities of Australia consistently experienced the highest average family activity hours and surpassed by Inner Regional Australia after February 2023. Activity hours increased in January 2023 for Remote and Very Remote Australia, which may have been associated with seasonal work.

Inner Regional Australia experienced the highest monthly growth rate of 0.22% between July 2022 and December 2023. In contrast, Remote Australia had the lowest growth rate at 0.09% per month. Despite this slower growth, Remote Australia consistently maintained the highest or second highest levels of family activities throughout the period.

Figure 49 - Average Fortnightly Family Activity Hours, by Remoteness Area

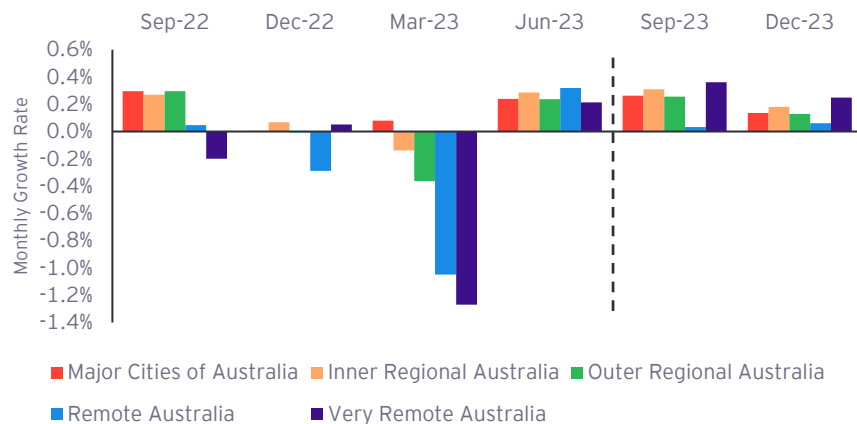


Source: EY Analysis of Department of Education Administrative Data

Activity hours grew on average each quarter for most remoteness areas, except for the January 2023 quarter. Remote Australia and Very Remote

Australia experienced negative average growth in activity hours in the September and December 2023 quarters (respectively), and in contrast experience growth in all quarters after March 2023 (see Figure 50).

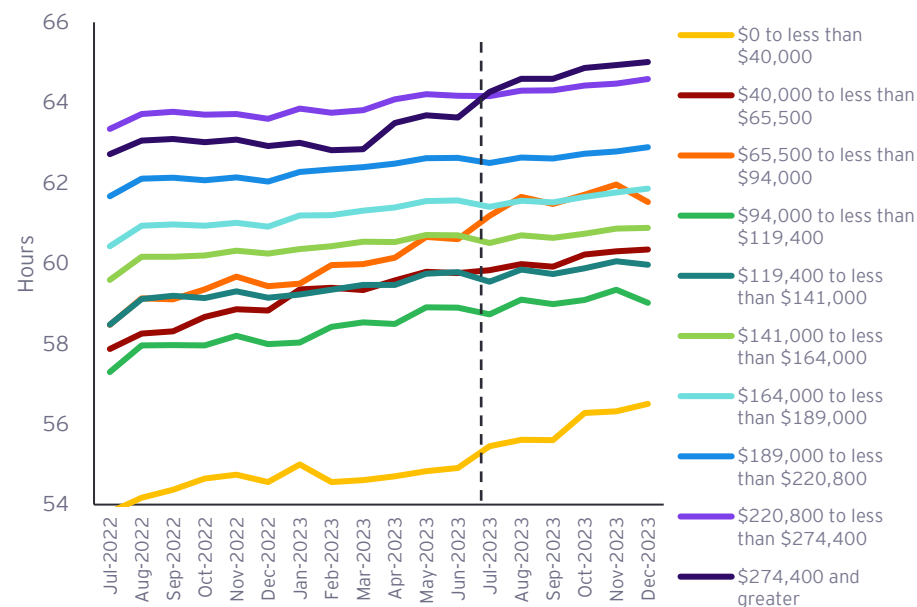
Figure 50 - Average Quarterly Growth in Average Family Activity Hours, By Remoteness Area



Source: EY Analysis of Department of Education Administrative Data

Every income bracket experienced a rise in their fortnightly family activity hours, with the extent of the increase differing across income levels. The first income decile, comprising families earning between \$0 and \$40 000 annually, maintained the lowest average activity hours at 55.1 hours per fortnight throughout the period in question (see Figure 51). Conversely, families in the ninth income decile, with earnings in the higher range, recorded the highest average activity at 64.0 hours per fortnight.

Figure 51 - Average Fortnightly Family Activity Hours, by CBDC Income Deciles



Source: EY Analysis of Department of Education Administrative Data

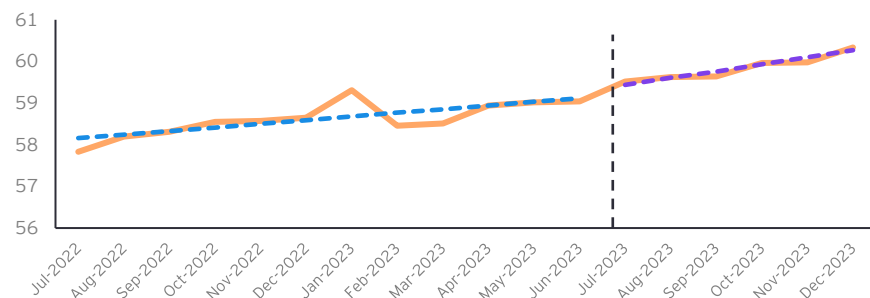
Following the FAL amendments, the third income decile, families earning between \$65 000 and \$94 000, saw the largest increase in fortnightly activity hours, a 3.3% uptick. This group, likely to benefit from the FAL amendments due to their proximity to the lower income threshold for the 90% maximum rate of the CCS, experienced a statistically significant surge in activity hours by nearly 3 hours in July 2023.

It is important to note that while these figures suggest a positive trend, they do not necessarily prove that the FAL amendments were the sole cause; other factors, such as wage increases across various industries taking effect in July 2023, may also have contributed.

There is some evidence that parents using CBDC accelerated their trend in average activity hours after the implementation of the FAL amendments prior to the year before. After 1 July 2023, there is some evidence for a difference in the slope associated with average activity hours, as families

increased their average activity hours by 9.27 minutes per month on average (see Figure 52).

Figure 52 - Average Fortnightly Family Activity Hours by Families Using CBDC



Source: EY Analysis of Department of Education Administrative Data

The result could be caused by seasonality, in which family activity hours increase between July to December and fall afterwards. When the analysis was repeated with the periods between July-December 2022 and July-December 2023, there was no statistically significant difference in the rates at which families increased their activity hours.

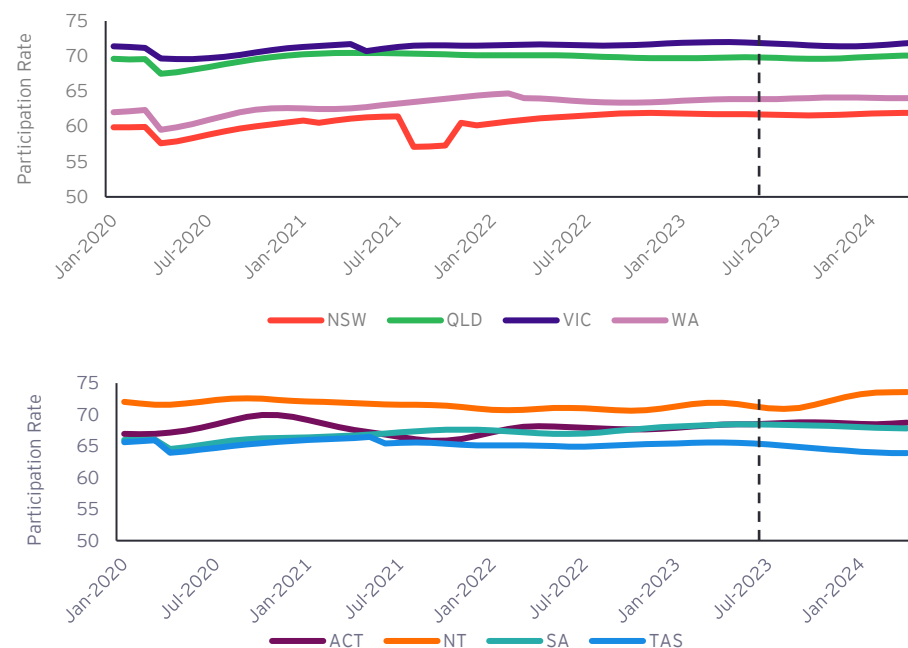
Further analysis of the impact of the FAL amendments on activity hours for typical families is provided at Appendix E and Appendix F.

7.5 Workforce participation rates remain steady post-amendment

Changes and movements in workforce participation take time, and as indicated in section 7.1, broader labour market trends will be difficult to evaluate and attribute to the FAL amendment in the short-time span of data available for this analysis. This is evident in the labour market data gathered on participation rates for males and females, which show a continuation of the pre-amendment trend for most states and territories.

The female workforce participation rate generally remained steady across Australian states and territories post-amendment, with the exception of the Northern Territory (see Figure 53).

Figure 53 - Female Workforce Participation Rate, 2020-2024



Source: EY Analysis of ABS Labour Force Data

The Northern Territory saw a sharp increase in the female workforce participation rate in the months following the amendment, increasing from 71% in July 2023 to 73.6% by March 2024. While some of this may be driven by the FAL amendment, the Northern Territory also experienced record high employment in the March 2024 quarter, driven by increased levels of business and public investment towards the end of 2023, which is likely to be influencing workforce participation in the territory as well.⁵⁴

⁵⁴ 2024-25 Budget, Northern Territory Economy - [2024-25 NT Economy](#).

8. Changes in productivity

The FAL amendments were introduced as part of the Government's gender equality agenda and to support children's school-readiness and long-term outcomes by reducing cost barriers to accessing ECEC.⁵⁵ In supporting greater workforce participation for parents and carers, particularly women, it is expected that these amendments will have wider benefits for the economy, particularly in terms of its recovery following the disruptions caused by COVID-19.

8.1 Defining productivity

Productivity is defined as the ratio between output and the total input of factors (e.g. labour, capital, land) required to achieve it.⁵⁶ Productivity can take on a range of definitions, depending on the factor or measure of interest. The following will define common terms and explain how this report will comment on any changes to productivity as a result of the FAL amendments.

Labour Productivity

The ABS produces various measures of labour productivity. The most frequently released is the Gross Domestic Product (GDP) per hour worked, which is included in the quarterly National Accounts.⁵⁶

While this analysis can show the changes in GDP per hour worked following the FAL amendments, the narrow time span, and the multitude of broader economic influences on this metric make it difficult to attribute any changes in GDP to the FAL amendments.

Multi-Factor Productivity and Quality Adjusted Labour Inputs (QALI)

The ABS also provides annual estimates of multi-factor productivity (MFP). This metric assesses the output produced from the combined inputs of labour, measured by hours worked, and capital. As part of this data release, the ABS also produces a Quality Adjusted Labour Inputs (QALI) Index, which adjusts labour input (e.g., hours worked) to account for labour quality factors, such as education and work experience.⁵⁶

While both the MFP and QALI estimates may be influenced by the FAL amendment in the longer term, the current data released by the ABS predates the implementation of the FAL amendment. As a result, it is not currently possible to assess its impact on these measures of productivity.

8.2 Productivity changes as a result of the FAL amendments are difficult to assess in the short-term

The FAL amendments were implemented on 1 July 2023, which means they have only been in place for less than 12 months. At the time of this report, administrative data is only available up to December 2023, covering a period of five months from the commencement of the amendments.

Changes to productivity are influenced by a range of factors and typically require long-term data to observe the emergence of new trends. The PC's interim draft report, released November 2023, stated that benefits from ECEC subsidies can be "difficult to quantify" and vary significantly depending on family circumstance.⁵⁷

The PC found that this can be due to a range of factors that influence the extent to which changes in productivity are observed, for example:⁵⁷

⁵⁵ House of Representatives (2022), Explanatory Memorandum - Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022, Education and Employment Legislation Committee, Commonwealth of Australia, accessed 7 June 2024. Retrieved from aph.gov.au.

⁵⁶ ABS, Labour Statistics: Concepts, Sources and Methods - [Labour productivity | Australian Bureau of Statistics \(abs.gov.au\)](https://www.abs.gov.au/Statistics).

⁵⁷ Productivity Commission (2023), *A path to universal early childhood education and care*, November 2023 Canberra, accessed 14 June 2024.

- ▶ Children can experience life-long benefit from ECEC attendance; however, these positive outcomes typically take years to be realised.
- ▶ Productivity gains related to children’s outcomes depends on their family circumstances, which includes household income and nature of work.

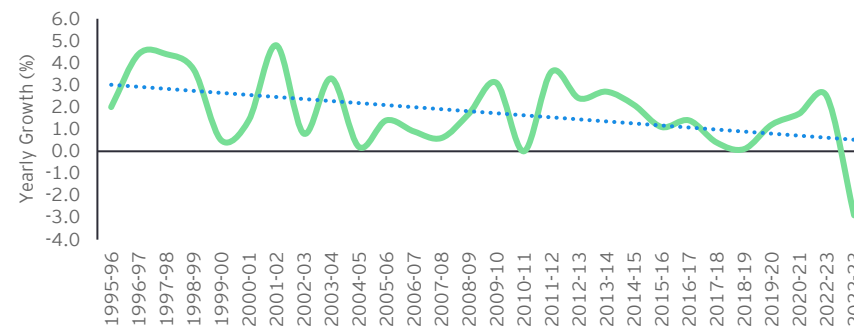
Although this review is unable to comment on the impact the FAL amendments and other reforms across the ECEC sector may have on productivity, the Productivity Commission (PC)’s report on the current state of the Australian ECEC sector was handed to the Australian Government on 28 June 2024.

This report makes recommendations that will support the ECEC sector, reducing barriers to workforce participation and support children’s learning and development, including considering a universal 90 per cent child care subsidy rate.⁵⁸

8.2.1 Labour productivity trends will require additional time and data for complete evaluation

Labour productivity, measured as GDP per hours worked, has been trending down since the mid-1990s (see Figure 54). The slowdown is not unique to Australia, broadly following the experiences in many other advanced economies.

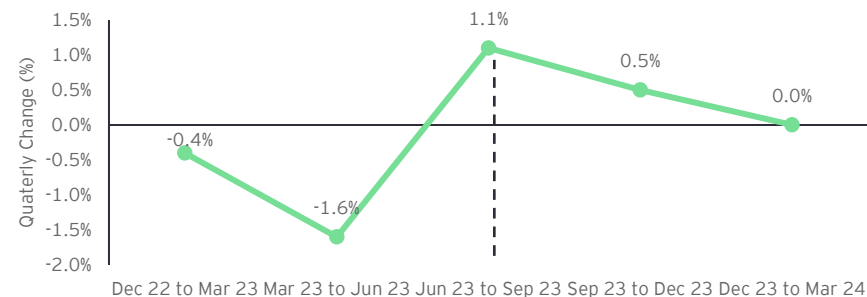
Figure 54 - Labour Productivity Yearly Growth (%), Australia



Source: EY Analysis of ABS Estimates of Industry Multifactor Productivity Data

While there is some indication that GDP per hour worked increased in the quarters following the amendment (e.g. September 2023 and onwards), it is not possible to conclusively deduce the extent to which this was driven by the FAL amendments (See Figure 55).

Figure 55 - Quarterly Change in Labour Productivity (GDP per Hour Worked)



Source: EY Analysis of ABS National Accounts Data

It should be noted that the GDP per hours worked measure is subject to volatility and is best examined as a trend over time, limiting its usefulness in assessing the productivity impacts of the FAL amendments.

⁵⁸ Productivity Commission (2023), *Terms of Reference - Early childhood education and care*, Australian Government Productivity Commission, 2023, accessed 1 July 2024.

Appendix A References

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Data Sources:

- ▶ ABS (abs.gov.au)
- ▶ DoE Administrative Data (provided by DoE)
- ▶ ACECQA (acecqa.gov.au)

Appendix B Maximum CBDC places to child population approach

Calculating child population (demand for CBDC places)

Child population by state and quarter (ranging from Q1-2019 to Q3-2023) was acquired from the ABS. To disaggregate child population into a postcode level, Census 2021 was acquired for population (usual residence), by postal area, state, and remoteness area for children aged 0-4.

Quarterly child population was disaggregated into postal and remoteness area using Census 2021.

The share of children living in each postcode, state and remoteness area is calculated and applied to the child population by state. The result is the total amount of children living in each postcode, state, and remoteness area over time.

Calculating maximum number of places (supply of CBDC places)

Services were mapped to physical locations using information provided by ACECQA. Different approaches were taken based on the level of detail provided.

Services with geographical information provided:

- ▶ Data from ACECQA was acquired, and each tab (representing quarters) read in.
- ▶ Using latitude and longitude provided in the file, a service's remoteness area is mapped using shapefiles accessed through the ABS.
- ▶ Similarly, a service's state and postal code are mapped using shapefiles from the ABS.

- ▶ A service's maximum number of places (NB., not approved places) is obtained.

Services without geographical information

- ▶ Services without latitudes and longitudes (1,754 rows) were identified.
- ▶ Where services had postcodes and a mapped remoteness area, a concordance between postcodes and states was appended to deduce the state attached to postcodes. Each postcode was mapped to the respective state it belonged to and, where one postcode covered multiple states, maximum total places was allocated to each state based on the proportion of population who lived in each postcode and state. 57 services (max 508 places) had a remoteness area but no state mapping, in which case, the managing jurisdiction was treated as the mapped area.
- ▶ Where services had neither a state nor a mapped remoteness area, a concordance between remoteness area, state and postcode was attached. Like the step above, maximum total places were allocated to each state and remoteness area based on the population share.
- ▶ Four services had no geographical information, in which case a manual mapping using the service National Law number was used to manually map information from ACECQA.

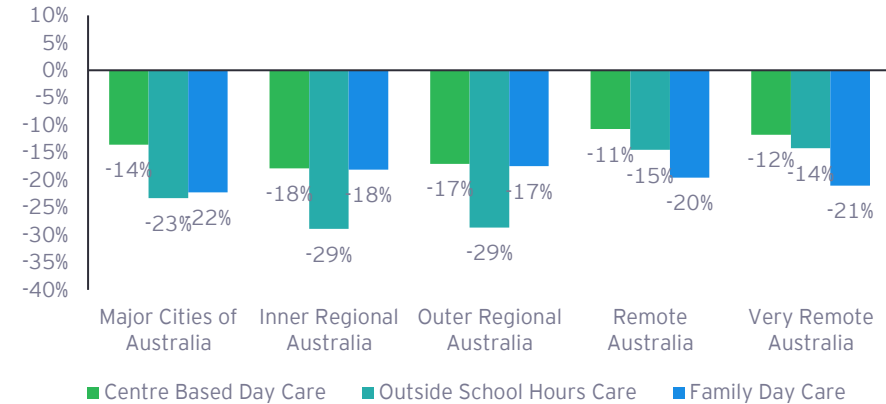
Appendix C Out-of-pocket costs by Remoteness Area and Care Type

While there is little evidence of the subsidy value being eroded by fee rises at the aggregated level nationally, there is some indication that the fee rises are eroding the subsidies provided for some care types in certain areas.

- ▶ The reduction in out-of-pocket costs for Family Day Care in Remote and Very Remote Australia, appears to be diminishing over time.
- ▶ By September 2023, the out-of-pocket costs for Family Day Care had fallen by 20% and 21% (relative to June 2023) in Remote and Very Remote Australia, respectively. By November 2023, this reduction had shrunk to 16% and 11%.
- ▶ The reduction in out-of-pocket costs for Outside School Hours Care also appears to be diminishing, broadly across remoteness areas with some experiencing the reduction more than others. Notably, Outside School Hours Care costs actually increased by 6% between June and November 2023 in Very Remote areas.
- ▶ The change in out-of-pocket costs moved from a reduction of 14% in September 2023 to an increase of 6% by November 2023, for Very Remote Australia.
- ▶ Consultations highlighted sentiments that the initial financial relief provided by the subsidy was not felt to the same extent by families in regional and remote areas. Fee decreases in these areas were still not sufficient to entice additional service use by families within lower-income brackets.

- ▶ Submissions to the FAL Amendment Bill stated noted that the expense of ECEC is higher for families who work unpredictable hours.⁵⁹

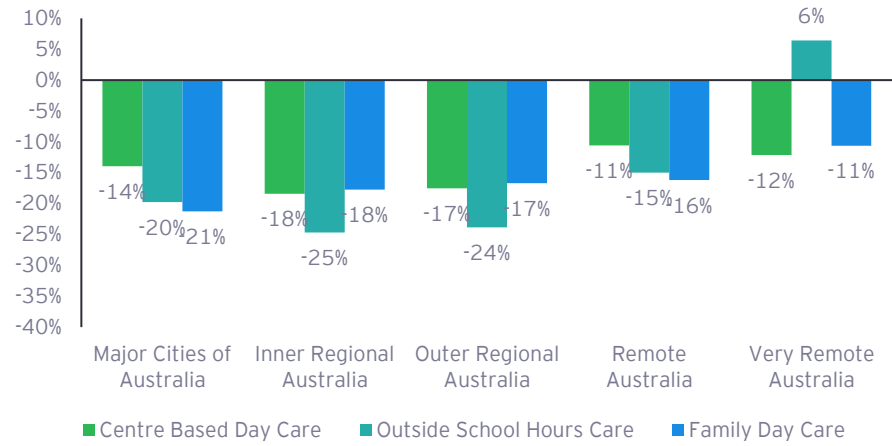
Figure 56 - Percentage Change in Average Hourly Out-of-pocket cost, by Remoteness Area and Service Type, June to September 2023



Source: EY Analysis of Department of Education Administrative Data

⁵⁹ Senate Committee (2022), Inquiry Report on the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 [Provisions], Education and Employment Legislation Committee, November 2022, accessed 4 June 2024. Retrieved from aph.gov.au.

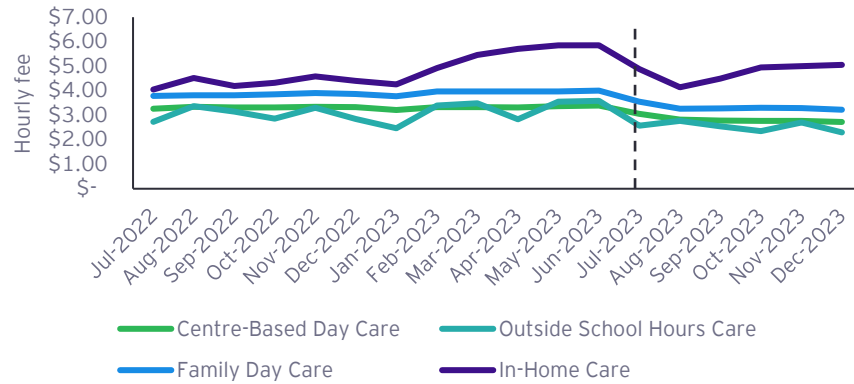
Figure 57 - Percentage Change in Average Hourly Out-of-pocket cost, by Remoteness Area and Service Type, June to November 2023



Source: EY Analysis of Department of Education Administrative Data

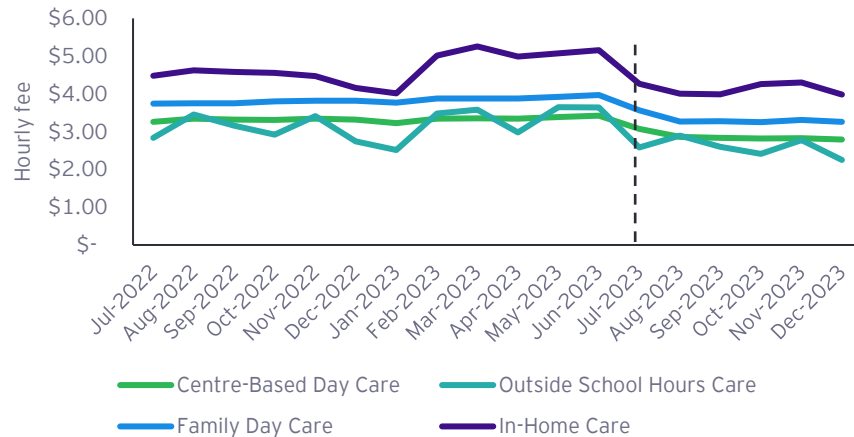
Appendix D Out-of-pocket costs by Remoteness Area

Figure 58 - Average Hourly Out-of-Pocket Costs, Inner Regional Australia



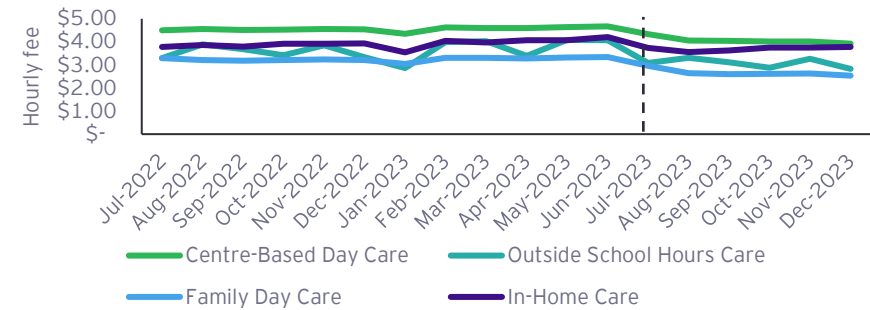
Source: EY Analysis of Department of Education Administrative Data

Figure 59 - Average Hourly Out-of-Pocket Costs, Outer Regional Australia



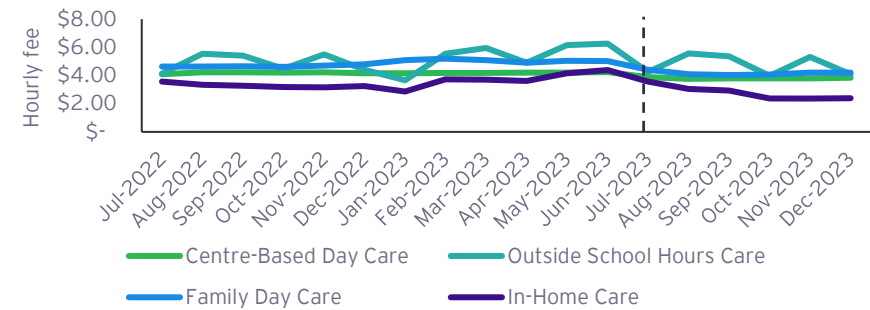
Source: EY Analysis of Department of Education Administrative Data

Figure 60 - Average Hourly Out-of-Pocket Costs, Major Cities of Australia



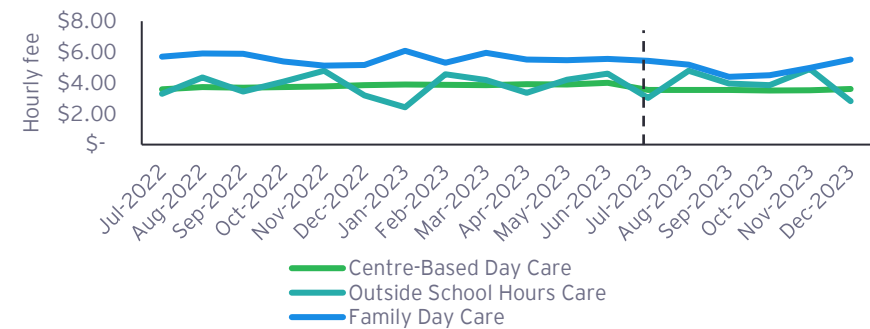
Source: EY Analysis of Department of Education Administrative Data

Figure 61 - Average Hourly Out-of-Pocket Costs, Remote Australia



Source: EY Analysis of Department of Education Administrative Data

Figure 62 - Average Hourly Out-of-Pocket Costs, Very Remote Australia



Source: EY Analysis of Department of Education Administrative Data

Appendix E Persona 1

Persona 1

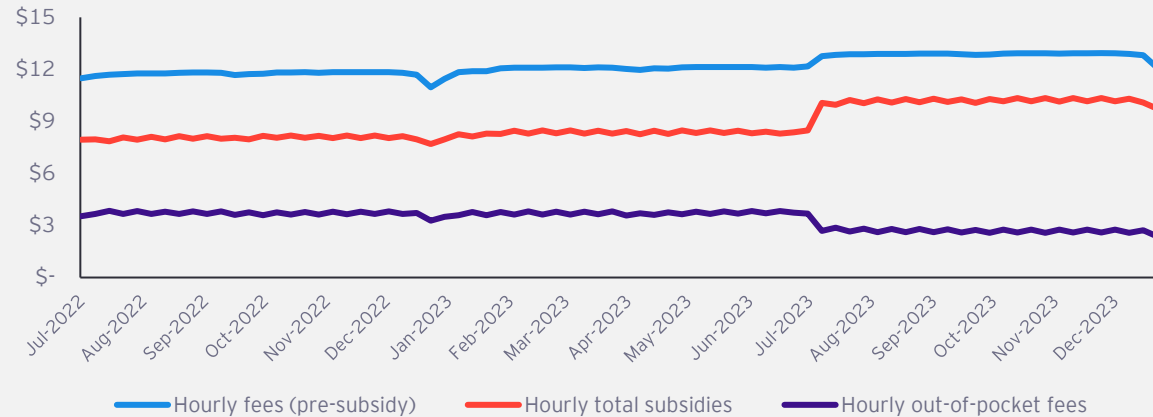
Persona 1 represents a family that:

- ▶ Earns between \$119,400 and \$141,000 annually;
- ▶ Lives in Major Cities of Australia; and
- ▶ Uses Centre-Based Day Care (CBDC).

Impact on out-of-pocket costs

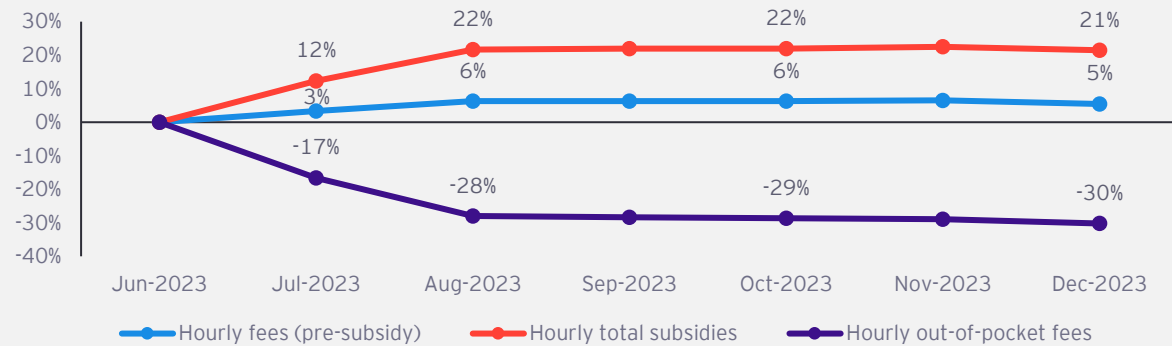
- ▶ These families - who earn between \$119,400 and \$141,000, use Centre-Based Day Care and live in Major Cities of Australia - saw a drop in their hourly out-of-pocket costs as subsidies increased after the Act was implemented.
- ▶ Unlike a similar decrease in fees charged and out-of-pocket costs witnessed in January 2023, the changes have remained relatively consistent between July 10, 2023, and November 2023.

Figure 63 - Persona 1, Average Hourly Fees, Subsidies and Out-of-Pocket Costs



Source: EY Analysis of Department of Education Administrative Data

Figure 64 - Persona 1, Average Change in Fees, Subsidies and Out-of-Pocket Costs, Relative to June 2023



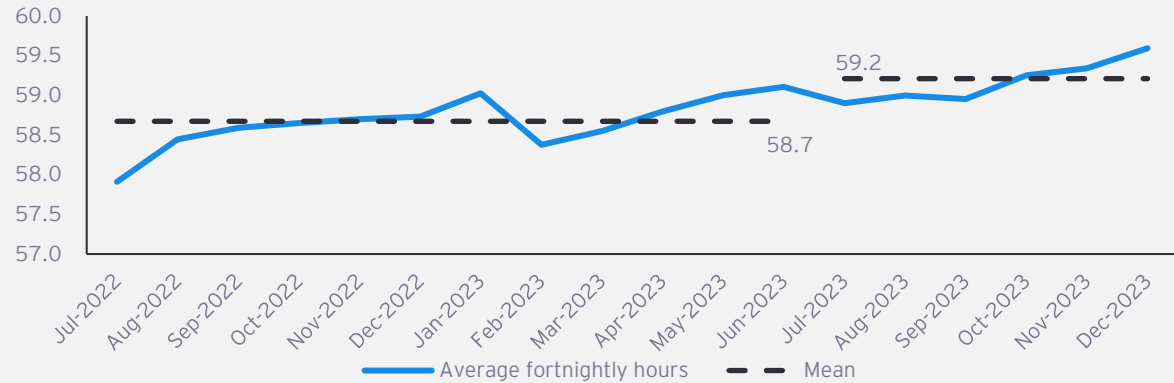
Source: EY Analysis of Department of Education Administrative Data

Persona 1

Impact on activity hours

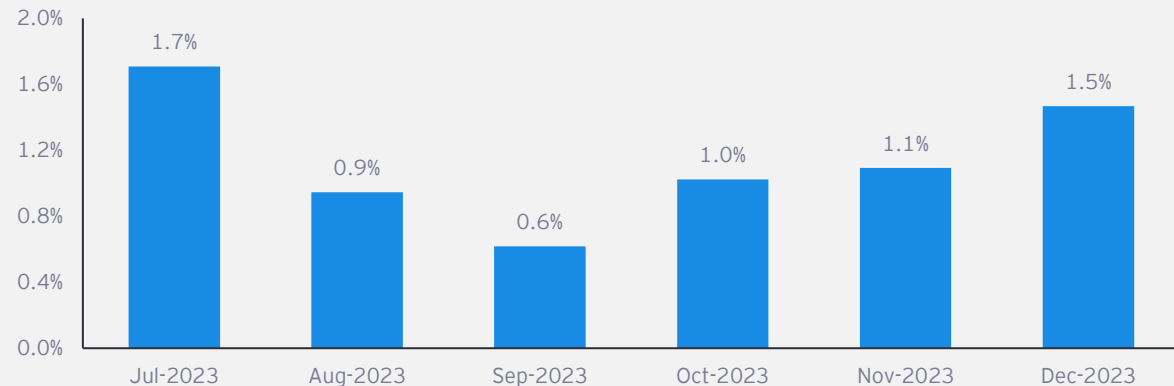
- ▶ Fortnightly family activity hours have increased since July 2022 for families in the first persona group.
- ▶ Families who earn between \$119,400 and \$141,000 have increased their fortnightly activity hour since July 2020.
- ▶ They have increased the average fortnightly activity hour from 58.7 to 59.2 hours per fortnight, an increase of 32.2 minutes per fortnight.

Figure 65 - Persona 1, Average Fortnightly Family Activity Hours, Monthly



Source: EY Analysis of Department of Education Administrative Data

Figure 66 - Year-on-year growth in fortnightly family activity hours



Source: EY Analysis of Department of Education Administrative Data

Appendix F Persona 2

Persona 2

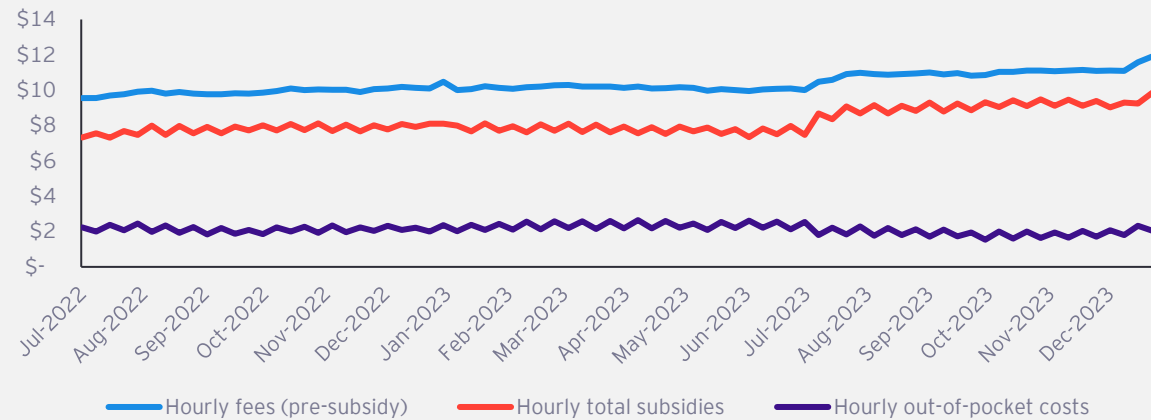
Persona 2 represents a family that:

- ▶ Earns between \$65,500 and \$94,000 annually;
- ▶ Lives in Remote/Very Remote Australia; and
- ▶ Uses Centre-Based Day Care (CBDC).

Impact on out-of-pocket costs

- ▶ Persona two families saw an increase in hourly fees and total subsidies, and a decrease in hourly out-of-pocket costs after the implementation of the FAL Act in July 2023.
- ▶ Hourly out-of-pocket costs reached their lowest level (relative to June 2023) in November 2023, reaching -24.4%. However, by December 2023, they had started increasing.

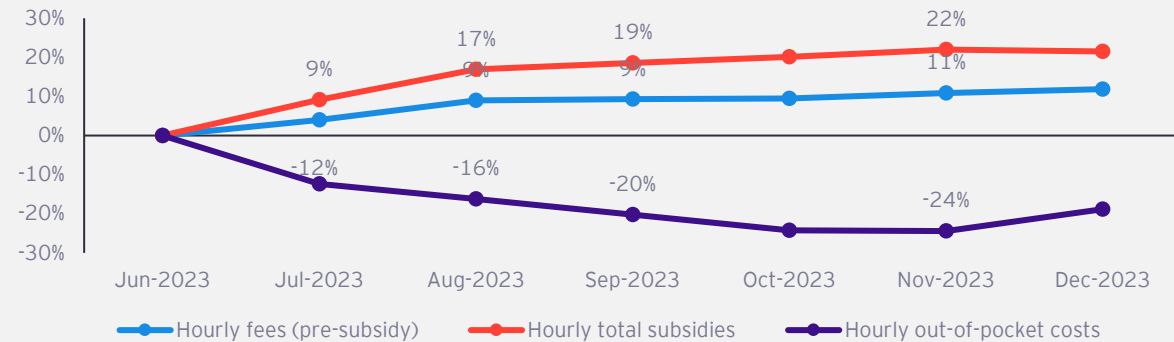
Figure 67 – Persona 2, Average Hourly Fees, Subsidies and Out-of-Pocket Costs



Source: EY Analysis of Department of Education Administrative Data

Persona 2

Figure 68 – Persona 2, Average Change in Fees, Subsidies and Out-of-Pocket Costs, Relative to June 2023

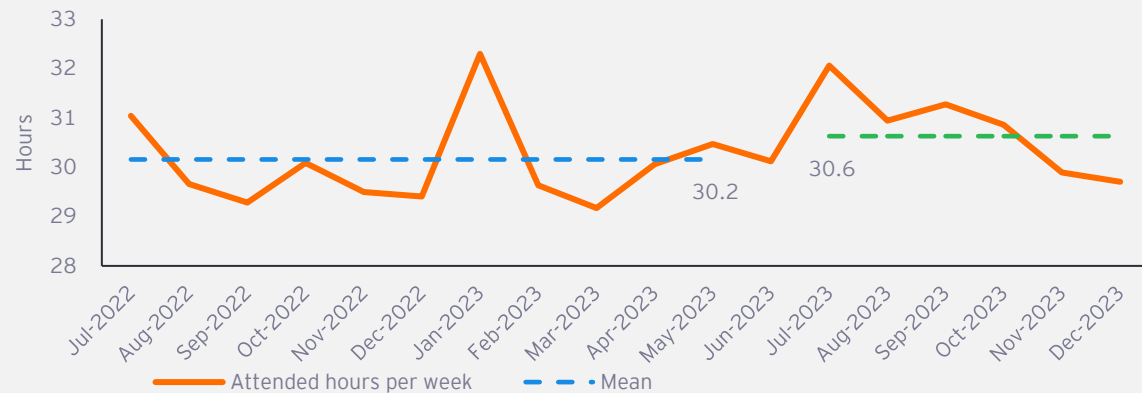


Source: EY Analysis of Department of Education Administrative Data

Impact on activity hours

- ▶ Families living in Remote/Very Remote Australia experienced a slight increase in average weekly attendance hours following the implementation of the Act.
- ▶ Average family fortnightly activity hours have increased from 60.3 to 61 hours per fortnight, before and after the implementation of the Act. However, activity hours increased more in January (reaching 63.3 hours per fortnight), suggesting seasonality may be a factor.
- ▶ Unlike families in Persona 1, the trend in activity hours is less clearly defined and may be influenced by factors other than the amendment.

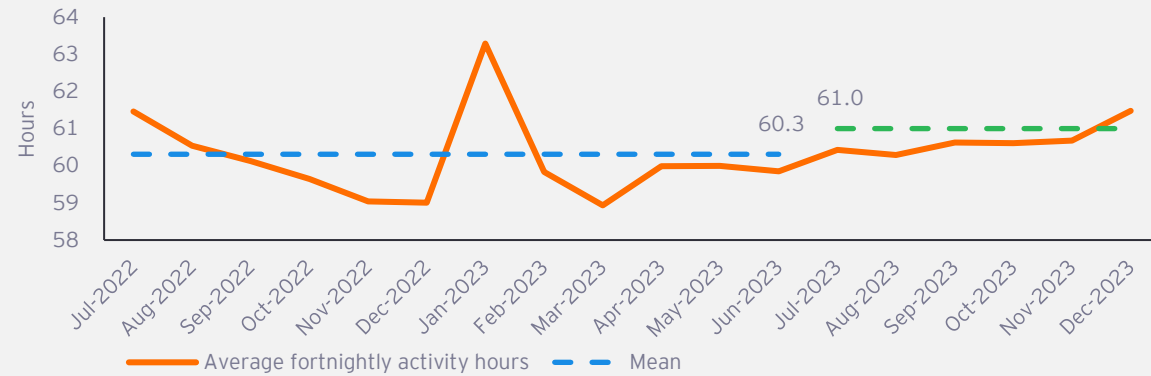
Figure 69 – Persona 2, Average Weekly Attended Hours in CBDC, per Child



Source: EY Analysis of Department of Education Administrative Data

Persona 2

Figure 70 – Persona 2, Average Family Fortnightly Activity Hours



Source: EY Analysis of Department of Education Administrative Data

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