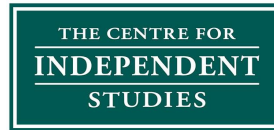


22 October 2025

Committee Secretary  
Education and Employment References Committee  
Department of the Senate  
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Dear Committee Secretary

The Centre for Independent Studies (CIS) welcomes the opportunity to provide a submission to the Education and Employment References Committee (committee) regarding the quality and safety of Australia's early childhood education and care (ECEC) system.

The CIS is a leading independent public policy think tank in Australia. It has been a strong advocate for free markets and limited government for nearly 50 years. The CIS is independent and non-partisan in both its funding and research, does no commissioned research nor takes any government money to support its public policy work.

Despite good intentions, Australia's ECEC system has expanded well beyond its original purpose as a work-support measure for families. The result is a framework that has become overly complex, costly, and administratively burdensome, without delivering commensurate improvements in child outcomes or value for taxpayers.

CIS argues that the federal role in ECEC should focus on enabling parental workforce participation and maintaining child safety, while avoiding the drift toward universal early education and entitlement-based funding. Regulation under the National Quality Framework (NQF) should be proportionate, risk-based, and evidence-led, centred on children's safety and the quality of daily care interactions rather than costly structural mandates.

To restore purpose, affordability, and sustainability, CIS proposes:

- A tiered, family-centred funding model that maintains a universal safety floor but allows subsidies to be portable across approved forms of care, including home-based and informal settings, with regulatory intensity calibrated to risk.

- A simplified, proportionate NQF that retains essential safety and welfare provisions but reduces unnecessary documentation, qualification inflation, and uniform compliance burdens that drive up fees.

Together, these reforms would realign the system with its core aims: supporting parents to work, children to thrive, and taxpayers to receive value for money — without pricing care out of reach or embedding open-ended spending growth.

Yours sincerely,

Glenn Fahey

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## Executive summary

- Australia's ECEC system has drifted from its original purpose as a targeted work-support measure toward ambitions of universal early education; creating complexity, higher costs, and blurred accountability. The federal role should be refocused on enabling workforce participation and maintaining child safety, while early education remains a state and territory responsibility. (ToR a, b, h, j)
- Children's developmental needs vary by age, so policy should reflect this diversity rather than impose uniform structures across 0–5 years. In infancy, secure attachment and continuity of care matter most, supported through parental leave and home-based options. In toddlerhood, warm, language-rich interactions drive development, meaning regulation should focus on process quality rather than structural proxies. And in the preschool years, developmental gains are strongest in the year before school and for disadvantaged children. (a, b, d, e, h, j)
- The National Quality Framework (NQF) sought to harmonise standards across states but now functions as a major cost driver, with limited evidence that prescriptive staffing, qualification, or documentation rules improve outcomes beyond basic safety standards. (b, h)
- Parents' priorities differ from what regulation measures. Most choose childcare for work reasons and value warmth, convenience, and affordability over credentials or early-learning emphasis. Policy should respect parental choice by enabling portable subsidies across approved care types (centre-based, in-home, or relative care) that meet consistent safety standards. (h, i)
- Taxpayers' interests lie in a sustainable, targeted system that delivers measurable returns. Funding should remain linked to workforce participation, with support for disadvantaged families provided through existing safety-net programs (ACCS, CCCF) rather than new entitlements. Universal subsidies would be fiscally unsustainable and inequitable, redistributing from single- to dual-income households. (f, h, j)
- CIS recommends replacing the one-size-fits-all system with a flexible three-tier structure—centre-based and family day care; licensed in-home or micro-group care; and occasional or relative care meeting basic safety standards. Subsidies should be portable across these settings, allowing families to choose care that best fits their circumstances, while support for vulnerable families continues through existing safety-net programs (ACCS, CCCF) rather than a new universal entitlement. (a, h, i, j)
- CIS recommends simplifying regulation to reduce cost and improve quality. Retain a consistent national safety baseline but make the NQF proportionate and risk-based, focusing on measures that genuinely improve outcomes. Streamline staffing and qualification rules, reduce unnecessary documentation, and shift quality assessment toward observed educator–child interactions. Implement the Productivity Commission's 2014 reforms on ratios, flexibility, and recognition of experience to ease workforce pressure and slow fee growth. (a, b, d, e, g, h, j)

## 1 The shifting purpose of ECEC: from targeted care to universal entitlement

Australia's early-childhood system has evolved dramatically over the past 50 years. What began as a targeted work-support program for families in need has become a universal service expected to deliver productivity, educational and safety outcomes all at once. Each reform was well-intentioned, but the cumulative effect has been to expand the system's scope and blur its original purpose. Understanding how early childhood policy moved from care to 'education and care' is essential to evaluating whether today's settings still serve children and parents effectively.

### From targeted work support to a mixed market (1972–2008)

The federal government's involvement began with the *Child Care Act 1972*, which funded non-profit services to support the growing number of working mothers and families in need. The Act was in response to "the rapidly increasing proportion of married women in the labour force and the consequences ... for the care of their children".<sup>1</sup> In 1976, the Commonwealth withdrew direct support for stand-alone preschools and left preschool education to the States and Territories, confirming that its role lay primarily in workforce participation and social welfare, rather than education.<sup>2</sup> During the 1980s, reforms such as the introduction of Childcare Assistance (1984) shifted funding from service-level subsidies to income-tested fee relief, broadening access while maintaining a needs-based focus. Through to the early 1990s, Commonwealth childcare policy was understood mainly as safe, affordable supervision enabling parents to work, not as a formal part of the education system.

During the 1990s, policy shifted toward a market model. Subsidies were opened to for-profit centres in 1991, planning controls were lifted, and by 1997 childcare operated as a demand-driven market. In parallel, the federal government introduced the Quality Improvement and Accreditation System (QIAS) in 1993–94 — a national accreditation layer on top of state licensing — making accreditation a condition of subsidy. Participation and outlays rose through the 1990s–2000s; by the early 2000s, roughly one-quarter of children were in formal care, up from around 12% in 1984.<sup>3</sup>

### Taking an education turn (2009–2012)

From 2009, the system adopted a more explicit 'education and care' framing. COAG's 2009 agreement led to the creation of the National Quality Framework (NQF), which came into operation in January 2012 across long day care, family day care, preschools and OSHC.<sup>4</sup> The NQF is structured around a National Law, National Regulations, the National Quality Standard, approved learning frameworks (notably the Early Years Learning Framework), and ACECQA as national oversight. Under this regime, a consensus emerged among federal and state governments that the early-childhood services should be viewed as an education-and-care sector, with explicit aim to drive educational and developmental outcomes alongside health, safety and care.

The growing Commonwealth subsidy spend was now implicitly purchasing learning as well as supervision. States harmonised licensing and preschool oversight within the NQF, and minimum standards for staffing and quality were raised significantly. For instance, under-two staff-to-child ratios tightened to 1:4 nationwide, even though some states formerly allowed looser ratios. The reforms sought to achieve consistency and transparency, but also reinforced an assumption that quality equated to regulated structural features such as staff ratios, qualifications, and documentation requirements.

However, within a few years the expanded regime began to strain. The Productivity Commission in 2014 found the system overly complex with duplicate regulation, and evidence mixed on whether stricter inputs improved outcomes.<sup>5</sup> Indeed, a Regulation Impact Statement prepared for the COAG 2009 NQF decision process conceded that the benefits of implementing higher quality standards could not be reliably assessed and compared with the measurable costs of regulation.<sup>6</sup> In 2018, the Child Care Subsidy (CCS) replaced earlier payments with a single income-tested subsidy tied to an activity test, while a Child Care Safety Net provided additional support for at-risk children. Funding became relatively more straightforward and explicitly linked to work, although many in the sector continued to argue that the regulatory burden remained high.<sup>7</sup>

### **Towards universal ECEC (2019–2025)**

Governments have continued to move from expanding access to pursuing universality. States such as Victoria and New South Wales are introducing universal preschool or pre-kindergarten programs, while the federal government has focused on affordability through subsidy reform. The Cheaper Child Care package, introduced in July 2023, lifted the maximum CCS rate to 90 per cent for low-income families and increased rates for many others. Yet, as the ACCC reported in 2023, fees continue to rise faster than inflation, and ever-higher subsidies risk fuelling price growth.<sup>8</sup>

The shift towards a universal ECEC system culminated in the Productivity Commission's 2024 report, *A Path to Universal Early Childhood Education and Care*, which set out a comprehensive plan for a system described as "high-quality, accessible, inclusive and equitable."<sup>9</sup> The report proposed removing the activity test and significantly increasing subsidy rates — up to 90 per cent for most families and 100 per cent for the lowest-income households — to guarantee at least 30 hours a week of subsidised ECEC for every child aged 0–5. These recommendations mark a decisive shift from childcare as a work-support measure toward treating early learning as a universal public entitlement.

## **2 Whose interests are at stake: children, parents, and taxpayers**

The history outlined above shows how a scheme created to help parents work has expanded to promise developmental and social outcomes far beyond its original remit. Yet as new purposes have been layered onto ECEC, it has become less clear whose interests the system is meant to serve and what success should look like. This section examines the interests of children, parents, and taxpayers, and identifies where current ECEC policy may depart from those interests.

## 2.1 Children's needs

Policy that genuinely serves children must start from a clear understanding of what children need at different stages of development. Infants, toddlers, and preschoolers learn and thrive in different ways, and quality in ECEC should therefore be judged by how effectively a setting meets each group's developmental needs — not by uniform structural rules.

Across all ages, safety must be regulated and enforced to a rigorous national baseline. Governments should maintain a consistent safety floor supported by risk-based inspection, enforcement, and transparency about incidents and breaches.

Beyond that baseline, policies such as staff-to-child ratios or qualification thresholds should apply only where evidence shows they improve children's outcomes at a reasonable cost. Heavy-handed regulation can raise prices without commensurate benefit, reducing access to childcare for families who need it most.<sup>10</sup>

### 2.1.1 Infancy (0–12 months)

The first year of life centres on attachment and trust. Infants depend on predictable, responsive care — an adult who notices cues, responds promptly, and provides warmth and security.<sup>11</sup> Everyday 'serve-and-return' exchanges shape brain architecture and later learning.<sup>12</sup> Babies flourish when cared for by one or two familiar adults who know them well and respond consistently. This is most naturally provided through parental care at home, but can also be achieved through a trusted relative or family day carer, provided the environment ensures safety, continuity, and responsive supervision.

For most infants, the evidence shows no inherent developmental advantage to early formal care over attentive parental care.<sup>13</sup> The Productivity Commission found in 2014 that potential negative effects such as later behavioural problems are "greater the closer to birth the child commences ECEC and the longer the time the child spends in formal care — particularly if the care is of low quality."<sup>14</sup>

ECEC policy should therefore prioritise parental leave and home-based options for children especially in the first year. In fact, many parents choose to keep babies at home: studies show a strong preference for parental or familial care in the first year, and utilisation of formal care for under-ones remains relatively low.<sup>15 16</sup> When non-parental infant care is used, quality means a nurturing, familiar carer and an environment that protects an infant's need for security.<sup>17</sup> No particular service type has a monopoly on that — a devoted grandparent or an excellent family day carer can provide the same (or better) infant care quality as a centre, so long as safety and responsiveness are ensured.

### 2.1.2 Toddlerhood (1–3 years)

Between one and three years of age, children begin to assert independence and curiosity. Mobility, language, and social skills develop rapidly, and toddlers need safe opportunities to explore, supported by adults who

provide warmth, clear boundaries, and comfort when needed. The caregiver's role is to balance freedom and guidance — allowing children to experiment while providing a secure base to return to.

Language development during this stage is especially rapid. Toddlers benefit most from language-rich interactions — talking, reading, singing, and everyday conversation — rather than from structured or formalised “learning.” The key ingredient is responsive, emotionally supportive engagement: caregivers who listen, talk, and respond consistently to children's cues. Small group or home-based settings can support this well by allowing more one-on-one attention and stability of relationships.

Evidence consistently supports *process quality*, the quality of interaction between a caregiver and a child, is strongly and directly linked to child development especially in language and socio-emotional domains.<sup>18 19</sup> By contrast, structural qualities (for example, group size, staff qualifications, or ratios) are best understood as enablers of those interactions, though not guarantees of outcomes.<sup>20 21</sup> Effects on child outcomes are generally mixed or uncertain when assessed directly. Meta-analytic work on ratios, for instance, finds few consistent associations with children's developmental outcomes, suggesting that structural settings matter insofar as they support meaningful, responsive interaction.<sup>22</sup>

Australian research indicates that formal childcare during the toddler years does not consistently produce cognitive gains for the broader population.<sup>23</sup> The strongest developmental benefits are observed among children from disadvantaged backgrounds, for whom access to high quality early care can help offset learning and language gaps.<sup>24</sup> These children are also disproportionately from families who do not meet the CCS activity test requirements — often due to low or irregular employment — which restricts their access to subsidised hours.<sup>25</sup> For most children, however, what matters most is the quality of relationships — who provides care and how responsive and engaging that care is — rather than whether it occurs at home, with relatives, or in a formal centre-based setting.

ECEC policy should therefore enable parental choice and support a mix of arrangements that allow safe exploration and rich language exposure. Many parents of one- and two-year-olds prefer home-based or informal care — such as grandparents, nannies, or family day care — for its familiarity and flexibility. These options can provide equally strong developmental environments when they are safe and nurturing. The focus should be on supporting quality interactions in whichever setting parents choose, rather than promoting a single model of care.

### **2.1.3 Preschool age (3–5 years)**

By ages three to five, children become more sociable, verbal, and capable of learning through play and peer interaction.<sup>26</sup> Their development at this stage is supported by play-based, language-rich environments that encourage cooperation, curiosity, and self-regulation.<sup>27</sup> Structured preschool or kindergarten programs can assist children's transition to school by promoting early literacy, numeracy, and social skills.

Research indicates the strongest developmental and social gains occur in the year or two before formal schooling, particularly for children from disadvantaged backgrounds who may have fewer learning opportunities at home.<sup>28</sup> However, the evidence for broad developmental benefits from universal early-education expansion is limited.<sup>29</sup> Large-scale studies, including those of Quebec’s universal childcare system, found no sustained cognitive improvements and increased behavioural problems among children generally, with benefits concentrated among disadvantaged cohorts.<sup>30 31</sup>

It should be noted that preschool and kindergarten are primarily the responsibility of state and territory governments, which fund and regulate year-before-school programs through their education departments. The role of federal ECEC policy — through the Child Care Subsidy and the National Quality Framework — should remain focused on childcare as a work-support function, not extend into universal early-education provision.

While intentional and guided play within well-designed ECEC programs can produce meaningful gains in school readiness, efforts to embed “education” into federally funded childcare have produced mixed and inconsistent results. Federal initiatives have tended to emphasise structural and administrative compliance rather than the quality of instructional practice, adding cost and complexity without clear evidence of proportional benefit to children.

For most children, the most important developmental ingredients remain responsive, nurturing relationships and rich opportunities for play and language — whether provided by parents, family day carers, or educators. ECEC policy should therefore remain targeted and proportionate: high-quality preschool access for those who need it most through state and territory programs, but not a universal early-education entitlement delivered through federal childcare funding.

#### 2.1.4 What this means for policy

Taken together, the evidence shows children’s developmental needs vary markedly by age, and that policy should reflect this diversity rather than impose uniform structures across the 0–5 age spectrum.

In the first year, secure attachment and continuity of care matter most; there is little evidence that formal centre-based care confers developmental advantages over attentive parental or family care. Policy should therefore prioritise parental leave and home-based options, ensuring families are supported to provide stable, responsive care during infancy.

For toddlers, language-rich interaction and emotionally warm relationships underpin development. Regulation should focus on process quality — the quality of adult–child engagement — rather than ever-tighter ratios or credential mandates that inflate costs without proven benefit. Funding and oversight should enable a range of safe, flexible settings, including family day care and in-home arrangements, to meet parents’ preferences.

In the preschool years, play-based programs and peer interaction prepare children for school, with the strongest evidence of benefit for disadvantaged cohorts. Preschool funding is properly a state and territory

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<https://www.sciencedirect.com/science/article/pii/S0885200618300279>

This is one of very few carefully designed large-scale RCT studies.

It shows a null effect and effectively notes that commonly cited examples in the literature conflate selection effects and experience fadeout effects that don’t get accounted for.



responsibility within the education system; the federal role should remain to support workforce participation through childcare subsidies and maintain a consistent safety baseline.

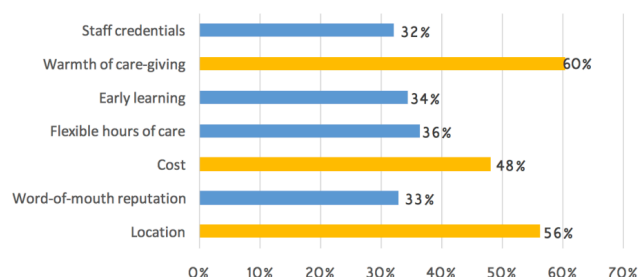
CIS submits that the federal government's role is to enable, rather than prescribe, evidence-informed practice. This means maintaining a universal safety floor and a clear workforce-participation focus, while ensuring that regulation and interventions do not raise costs without clear evidence of improved outcomes. Any new requirements should be piloted and independently evaluated for both educational impact and cost-effectiveness before being implemented at scale. While children in disadvantaged households that do not currently meet the CCS activity test may benefit from early learning opportunities, the appropriate policy lever lies in welfare-to-work and family support programs, not in loosening the activity test within childcare policy, which should remain focused on enabling parental workforce participation.

Further, extending federal childcare policy into a universal early-education entitlement risks adding cost and bureaucracy without clear developmental gain. Instead, additional taxpayer funding should be applied on the basis of need, targeting children and communities where developmental vulnerability and social disadvantage are greatest — where the evidence shows early learning delivers the strongest, most lasting benefits and helps to reduce intergenerational disadvantage.

## **2.2 Parents' needs and preferences**

Most parents choose formal childcare for work-related reasons. According to the Australian Bureau of Statistics' latest available survey, 76.6% of children in formal care attend for work-related reasons, compared with 14.6% who use it because it's "beneficial for the child", and 7.2% for personal or other reasons.<sup>32</sup> This shows that Australian parents who use childcare overwhelmingly do so to enable their participation in the workforce, not primarily for early education purposes.

While parents primarily rely on childcare to support work, what they value in a service is not necessarily what governments emphasise. In a national survey by the Centre for Independent Studies of over 500 working mothers with children aged 0–5 who use childcare, the top "most important" factor when selecting a service was the warmth of care-giving (24%), followed by location (18%) and cost (15%); early learning (10%) and staff credentials (9%) ranked lowest as the single most important factor.<sup>33</sup> When asked to rank priorities, warmth (60%), location (56%) and cost (48%) most often appeared in parents' top three, again well ahead of staff credentials and early-learning emphasis.



**Figure 1. Working mothers' top three most important factors in selecting childcare.**

Parents' expressed preferences sit in tension with how quality is defined under the NQF. As discussed above, the current ECEC framework assumes tighter ratios, higher qualifications, and detailed documentation drive quality, even though evidence on the effectiveness of such structural inputs is mixed and uncertain beyond basic safety standards.<sup>34</sup> Meanwhile, parents place far greater importance on warmth and responsiveness, qualities that are more closely linked to children's development but less amenable to regulation. These structural requirements also add to providers' operating costs, particularly staffing, contributing to fee growth that runs counter to families' priorities.<sup>35</sup> Moreover, parental awareness and use of NQF ratings remains low,<sup>36</sup> meaning these regulatory measures have added to costs without meaningfully informing parental choice.

Another key CIS finding is that many parents would prefer home-based or informal care if they could, especially for very young children. In the CIS survey, one-quarter of working mothers said their ideal arrangement would be care by grandparents or other relatives, and a further 10% preferred a nanny or babysitter — even though all respondents were currently using formal childcare.<sup>37</sup> Even among mothers relying solely on formal care, 20% said they would ideally choose grandparents or relatives, while 8% preferred a nanny or babysitter.<sup>38</sup>

These results suggest that using formal childcare does not necessarily reflect parents' true preferences. Many parents may favour informal care for its flexibility, convenience, and at-home environment, but use formal care out of necessity — due to work hours, cost, or lack of nearby family. Further, CCS offers a financial incentive for working parents to use formal childcare, which likely explains why some families rely on long day care even when they would rather arrange informal care.

Flexibility is therefore a crucial interest for parents. Indeed, when asked about funding options, 66% of working mothers said they would like to use their government childcare subsidy for informal, even if it meant receiving a smaller amount.<sup>39</sup> Support remained high (64%) even among families using only formal care.

However, the current subsidy and regulatory settings heavily favour centre-based models such as long day care and preschool. Parents cannot direct the CCS toward a trusted neighbour or relative who minds the child, nor easily towards nanny shares or other home-based arrangements (except under the restrictive In-Home Care program). This lack of portability limits parental choice and is out of step with most parents' preferences.

Families would likely welcome a more neutral, family-centred subsidy that empowers them to decide who looks after their child, rather than effectively subsidising only centre-based services. An ECEC system that provides that flexibility would better respect parents' choice and diverse needs.

It should also be acknowledged that many parents do not use childcare at all — or at least not in the early years — and policy should respect that choice. CIS has argued for neutrality in family policy so that governments enable families to make their own choices about work, children and home care, rather than nudging them toward a single mode.<sup>40</sup>

2.3 Taxpayers' interest

Taxpayers now fund a rapidly expanding childcare system. Federal expenditure on the CCS reached \$13.6 billion in 2023–24, and total federal, state and territory government spending on early childhood education and care is around \$18 billion a year, making it one of the fastest-growing areas of public spending.<sup>41</sup> Yet fees continue to rise faster than inflation, with labour — accounting for 69% of providers' operating costs — remaining the main driver.<sup>42</sup> Rising fees, in turn, require ever-greater public outlays to maintain affordability through higher subsidies.

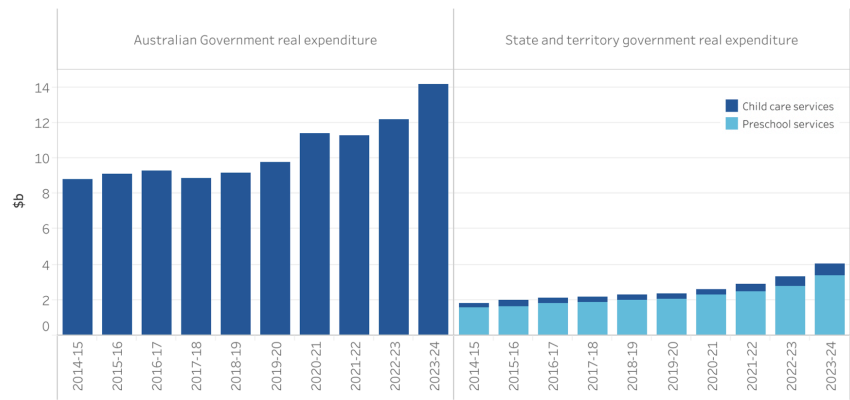


Figure 2. Federal, state and territory government spending on ECEC services (2023-24 dollars).  
Source: Productivity Commission.

From a value-for-money standpoint, taxpayers have an interest in funding settings that deliver results: safe, reliable care that expands parental choice, raises labour supply and broadens the tax base. The economic case has been to lower the net cost of childcare so that extra days or hours of paid work become worthwhile after tax, transfers, and fees. Productivity Commission analysis finds that while reducing childcare costs increases maternal labour supply, the effect is generally modest to minimal, with “1% decline in ECEC costs lead[ing] to a considerably smaller than 1% increase in participation”.<sup>43</sup> The strongest (though limited) gains occur when

assistance remains linked to paid work through an activity test; abolishing that link reduces total hours worked and raises fiscal cost, which weakens the value for taxpayers.

At the same time, excessive or poorly targeted regulation under the NQF has added to operating costs, particularly through staffing and qualification rules, without convincing evidence of commensurate gains in quality or outcomes (see section 2.1). These structural requirements are costly proxies for quality, yet they have become major drivers of fee growth and subsidy escalation, leaving both families and taxpayers paying more for compliance than parents either value or notice.

A further concern is fiscal sustainability. Expanding subsidies to all families regardless of work status — as recommended by the 2024 Productivity Commission report promoting universal ECEC — would create a permanent spending expansion that would be difficult to unwind, while delivering limited labour-supply benefits. As already discussed, the evidence for large, population-wide educational gains from universal childcare remains mixed at best. The strongest developmental and equity benefits occur in the year before school and for disadvantaged children who would otherwise miss out. Targeted assistance for these cohorts is more appropriate and cost-effective than a universal entitlement extending across all ages.

Where families face limited workforce participation or unstable employment that prevents them from meeting the CCS activity test, the more effective lever lies in welfare-to-work and family-support programs that address underlying barriers to participation, rather than in relaxing the activity test itself. Pursuing universal access across all ages risks delivering diminishing returns at rising cost at the expense of present and future taxpayers.

Such an approach also raises equity concerns. Although universal subsidies would include single-income households, the largest gains would accrue to dual-income families with extensive formal care use, while all parents would ultimately fund the expansion through higher taxes. In effect, this redistributes income from single-income households that provide their own parental care to dual-income households already benefiting from subsidised formal care.<sup>44</sup> A more sustainable and equitable framework would preserve the link between public funding and workforce participation, ensuring that childcare remains a targeted work-support measure rather than an open-ended entitlement.

### **3 How could the ECEC system better serve the interest of children and parents**

Australia's childcare system has gradually drifted from its work-support purpose toward ambitions of universal early education. Successive reforms have expanded subsidies and regulation but not always improved outcomes for children or affordability for families. As a result, today's ECEC framework is over-regulated, increasingly expensive, and unevenly aligned with its original goal of helping parents balance work and care.

At the same time, ECEC policy should remain neutral across modes of care. Families differ in their circumstances and preferences: some rely on centre-based services, others on relatives, nannies, or part-time parental care. Public funding should not implicitly favour one model over another. In practice, this means retaining an activity test that ties subsidy hours to employment, study, or job-search activity — consistent with the system’s purpose as a workforce-participation measure—while widening the definition of approved carers so parents can choose safe, flexible arrangements such as licensed in-home or micro-group care. Respecting parental choice, rather than steering families toward a single, centre-based model, better reflects how Australian families actually balance work and care.

The next sections outline two areas of reform that would realign the system with its core purpose and with families’ needs:

- a) a tiered funding architecture that maintains a universal safety floor while allowing subsidies to be portable, with proportionate oversight across different forms of care; and
- b) a simplified, proportionate National Quality Framework that protects children’s welfare without imposing excessive costs on providers and families.

Together, these reforms would clarify what government funding is for, reduce unnecessary regulatory burden, and ensure that the ECEC system supports parents to work and children to thrive—without pricing care out of reach or extending subsidies beyond their proven purpose.

### 3.1 Move towards a tiered, family-centred funding model

The current childcare system applies a largely uniform regulatory and funding framework across very different kinds of services. Centre-based day care, family day care, and outside-school-hours care are all governed by the same National Quality Framework and subsidy formula, even though their cost structures and family use-cases differ markedly. Only the small in-home care program operates under separate rules. The result is a system that looks differentiated in administration but functions as one-size-fits-all in practice, with complexity that families and providers alike find difficult to navigate.<sup>45</sup>

CIS submits that there is a strong case to test a tiered funding model that retains a universal safety floor but aligns subsidy levels and regulatory intensity to service type and risk. The model would expand parental choice by making subsidies more portable across approved settings that meet basic safety standards.

Illustrative architecture, subject to design and testing:

- **Tier 1: Centre-based and family day care.** Continue under a simplified National Quality Framework retaining essential safety and welfare provisions (see section 3.2 below), with standard CCS and current hourly-rate caps.

- **Tier 2: Licensed in-home or micro-group care.** Carefully extend from the existing in-home care program, currently restricted to only families unable to access other care, using light-touch licensing such as working-with-children checks, first-aid training, and basic premises standards. Subsidy set below Tier 1 to reflect greater flexibility and lower regulatory burden.
- **Tier 3: Occasional or relative care.** Capped support for non-resident relatives or occasional carers who meet basic safety checks. To maintain program integrity, any access would require simple registration, identity verification, and a prohibition on intra-household payments — to prevent a repeat of the compliance issues that led to the abolition of the former ‘registered care’ category in 2018.<sup>46</sup>

Subsidy eligibility should remain linked to work, study or job-search activity, with averaging provisions to accommodate irregular or self-employed hours. For families facing entrenched disadvantage or limited workforce attachment, targeted subsidies through existing safety-net measures such as the Additional Child Care Subsidy or Community Child Care Fund provides the appropriate framework for supporting vulnerable children without expanding childcare into a universal entitlement. This would ensure vulnerable children can access early learning opportunities where the evidence shows strong returns, while preserving the integrity of the activity test and keeping childcare policy focused on workforce participation rather than income support.

Comparable international frameworks demonstrate the practicality of such a tiered approach. In England, the ECEC system combines a universal safety and quality floor — all funded providers must be registered with Ofsted and meet national standards under the Early Years Foundation Stage — with layered entitlements and funding rates that vary by age group and parental work status.<sup>47</sup> A comparable tiered logic is also evident in New Zealand, where funding rates vary by service type — teacher-led, home-based, or parent-led — and within each by quality level, with higher rates available to services meeting additional qualification or staffing standards. This structure demonstrates how subsidy levels can be calibrated to regulatory intensity and provider characteristics within a single national framework.<sup>48</sup> Singapore similarly links subsidies to licensing and workforce participation — providing a basic subsidy to all Singapore-citizen children in ECDA-licensed centres with means-tested additional subsidies for working parents<sup>49</sup> — and is piloting subsidised, regulated childminding to expand in-home or micro-group options beyond long day care.<sup>50</sup>

### 3.2 Simplify regulation to reduce cost and improve quality

The NQF was introduced in 2012 with the stated goal of improving and harmonising quality standards in ECEC. While the intent was good, its implementation has become one of the most significant drivers of cost escalation in the childcare sector. Studies show that the NQF’s prescriptive staffing, qualification and documentation rules impose heavy compliance costs on providers, with little convincing evidence that these translate into better outcomes for children beyond minimum safety or competence standards, and overall costs likely exceeding the benefits.<sup>51 52</sup>

The federal ECEC policy is pursuing two objectives that are increasingly in tension: the quality of childcare as often defined through structural indicators such as staff ratios and qualifications, and affordability, delivered

through subsidies to help parents return to work. In practice, the funding and regulation of childcare work at cross-purposes; regulations push up the cost of provision while subsidies chase rising fees to maintain affordability, creating a costly and self-defeating cycle.

CIS therefore argues that the NQF should be simplified and made proportionate. The framework should concentrate on its essential purpose — protecting children's health, safety and welfare — while paring back costly requirements that function mainly as symbolic quality markers. Simplification means focusing regulatory effort where it matters and reducing compliance that adds cost with little or no benefit.

To simplify the NQF and improve its effectiveness, CIS recommends:

- **Retain a national safety and welfare baseline.** Maintain consistent health, safety, and child-protection requirements across all approved services, including working-with-children checks, emergency procedures, and mandatory reporting obligations.
- **Streamline qualification and staffing rules.** Reduce credential inflation by recognising experience and equivalent qualifications rather than mandating uniform certification. Maintain supervision ratios sufficient for safety but avoid further tightening unless supported by strong evidence of benefit.
- **Reduce documentation and administrative load.** Replace exhaustive Quality Improvement Plans and duplicative record-keeping with concise, risk-based evidence summaries. Services with consistent compliance histories should face lighter and less frequent audits.
- **Shift quality assessment toward observed practice.** Focus inspection and assessment on educator–child interactions, service culture, and day-to-day care quality. Use short observation cycles and coaching-based feedback rather than extensive written reviews.
- **Implement the Productivity Commission's 2014 practical reforms.** Adopt the Commission's recommendations to reduce unnecessary regulatory intensity.<sup>53</sup>
  - In outside-school-hours care, maintain ratios around 1:15 and limit the proportion of mandatory diploma-qualified staff.
  - In family- and home-based care, allow more flexible groupings and relaxed ratios for children over two.
  - Recognise overseas and alternative qualifications, permit temporary substitutions, and grandfather experienced educators.
  - Apply risk-based approvals so regulatory intensity matches service context and past performance.

These reforms would reduce red tape, ease staff shortages, and slow fee inflation while maintaining the NQF's essential protections. Providers could redirect time and resources from compliance paperwork to the direct interactions that families value most. For governments, a simplified NQF would achieve better alignment

**Commented [GF2]:** At a glance, does Table 1 suggest that diplomas are better than degrees?

<https://education.nsw.gov.au/content/dam/main-education/about-us/educational-data/cese/2018-effects-of-early-childhood-education.pdf>

**Commented [MW3R2]:** "... find that ECE is associated with a significantly higher scores only when the educator held a teaching degree or diploma"  
Seems to be saying a relevant qualification matters, but there is no robust evidence that one level (diploma vs degree) produces better outcomes.

between regulatory effort and measurable outcomes — protecting children without pricing their care out of reach.

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<sup>1</sup> Senate Community Affairs References Committee 1998, *Child Care Funding*, Canberra: Parliament of Australia, paragraph 2.6.

<sup>2</sup> Ibid., paragraph 2.15.

<sup>3</sup> Australian Bureau of Statistics, *Child Care, Australia, June 2002 (Cat. No. 4402.0)*.

<sup>4</sup> COAG 2009, *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care*.

<sup>5</sup> Productivity Commission 2014, *Childcare and Early Childhood Learning*, Inquiry Report No. 73, Vol. 1.

<sup>6</sup> COAG 2009, *Regulation Impact Statement for Early Childhood Education and Care Quality Reforms*, p. 55.

<sup>7</sup> Eugenie Joseph 2018, *Why Childcare Is Not Affordable*, Research Report 37, Centre for Independent Studies.

<sup>8</sup> ACCC 2023, *Childcare Inquiry – Final report*.

<sup>9</sup> Productivity Commission 2024, *A Path to Universal Early Childhood Education and Care*, Inquiry report, Vol. 1, p. 4.

<sup>10</sup> Trisha Jha 2014, *Regulating for Quality in Childcare: The Evidence Base*, Policy Monograph; see also Eugenie Joseph 2018, *Why Childcare Is Not Affordable*.

<sup>11</sup> COAG 2009, *Investing in the Early Years—A National Early Childhood Development Strategy*, p. 32.

<sup>12</sup> National Scientific Council on the Developing Child 2007, *The Science of Early Childhood Development*, Center on the Developing Child, Harvard University.

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<sup>14</sup> Productivity Commission 2014, *Childcare and Early Childhood Learning*, Inquiry Report No. 73, Vol. 1., p. 6.

<sup>15</sup> Ibid., p. 67.

<sup>16</sup> Jennifer Baxter 2013, *Child care participation and maternal employment trends in Australia*, Australian Institute of Family Studies, p. 24.

<sup>17</sup> Productivity Commission 2014, *Childcare and Early Childhood Learning*, p. 8.

<sup>18</sup> Sluiter et al. 2025, "The Impact of Process Quality in Early Childhood Education and Care on Socio-Emotional Development: A Meta-Analysis of Longitudinal Studies", *International Journal of Environmental Research and Public Health*, 22(5), 775.

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<sup>21</sup> Pauline Slot 2018, *Structural characteristics and process quality in early childhood education and care: A literature review*, OECD Education Working Papers No. 176.

<sup>22</sup> Perlman et al. 2017, "Child-Staff Ratios in Early Childhood Education and Care Settings and Child Outcomes: A Systematic Review and Meta-Analysis", *PLoS One*, 12(1):e0170256. See also Claire Crawford and Laura Outhwaite 2023, *Understanding the Impact of Childcare Ratios on Children's Outcomes*, Centre for Education Policy and Equalising Opportunities (CEPEO), University College London.



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- <sup>35</sup> Eugenie Joseph 2018, *Why Childcare Is Not Affordable*, Research Report 37, Centre for Independent Studies.
- <sup>36</sup> NSW Department of Education 2024, *Early Childhood Education Families Research*, p. 9.
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- <sup>41</sup> Productivity Commission 2025, *Report on Government Services 2025, Part B: Early Childhood Education and Care*.
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