



Early Childhood Education and Care (Three Day Guarantee) Bill 2025

**Goodstart Early Learning submission
February 2025**

About Goodstart

We are for children, not profit

Goodstart Early Learning (Goodstart) is Australia's largest not-for-profit social enterprise and Australia's largest provider of early childhood education and care, with 669 centres located across every state and territory, supporting more than 65,000 children from 54,000 families with a team of 16,000 employees.

As a not-for-profit social enterprise, our purpose is to ensure all Australia's children have the learning, development and wellbeing outcomes they need for school and life. It is our view that all children should be supported to participate in quality early learning and care, regardless of where they live in Australia, their family circumstances, their inclusion support needs, or their early learning setting. We believe the best way to do this is to ensure all children have access to high quality, inclusive early learning and care no matter their location or life circumstances.

Overarching statement

Goodstart supports the Early Childhood Education and Care (Three Day Guarantee) Bill 2025 and welcomes its passage through both Houses of Parliament on February 13, 2025

IF YOU WOULD LIKE TO DISCUSS ANY PART OF THIS SUBMISSION IN FURTHER DETAIL, PLEASE CONTACT:

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Overarching Statement:

Parliament's approval of the Three Day Guarantee for early learning is a positive reform that will give Australia's children access to life changing early learning opportunities.

We estimate that around 40,000 children will be able to access early learning as a result of this bill, with Government estimates showing early learning will become more affordable for another 66,700 children from mostly low income families.

The early passage of the bill will ensure that Services Australia and providers have plenty of time to do the systems changes needed for a January 1, 2026 commencement date.

The Three Day Guarantee will remove a significant barrier which has stopped many disadvantaged children accessing early learning and created unnecessary red tape for families," she said.

These changes could see some low income families accessing three days of early learning saving upwards of \$200 a week, with all families benefiting from less red tape.

This reform is long overdue and was recommended by both the ACCC and the Productivity Commission after an extensive review of the evidence.

The complex activity test red tape has been an unnecessary burden on all Australian families and these changes will make it simpler for everyone, including parents returning to work.

The evidence, along with what we see occurring in our 689 centres, shows that this reform will offer significant benefits for many families, especially those experiencing disadvantage. It will help ensure they can access enough early learning to set their children up for success in school and life.

As the Nation's largest provider Goodstart looks forward to welcoming new families to early learning in January 2026.

It is noteworthy that the Bill does not abolish the activity test in full. While there will be no activity requirement for families to access the first three days (72 hours per fortnight of CCS), families wishing to access five days (100 hours per fortnight of CCS) will still need to demonstrate 48 hours of recognised activity per fortnight.

The Bill establishes a new entitlement for First Nations children of 100 hours of CCS per fortnight, an increase from the current. This is an important targeted measure, as Australian Early Development Census data shows that around half of all First Nations children start school developmentally vulnerable.

The current activity test exemptions for carers and care-givers eligible for the various categories of Additional Child Care Subsidy will continue to apply.

The case for reforming the activity test

Since the Howard Government introduced the Child Care Benefit in 2000, access to child care subsidies has always been attached to an activity test. Up until 1998, the activity test had two steps – all families were entitled to 24 hours a week of CCB (i.e. 2 days). But to get 5 days and to access the general Child Care Rebate, they needed to be engaged in some work-related activity.

The 2018 Child Care Subsidy (CCS) introduced a more complex four-step activity test to more closely align access to ECEC with work. The base entitlement for low income families was halved to just 24 hours a fortnight (CCS) – essentially one day of ECEC per week – which is insufficient to make a difference to child development outcomes. The 2019 Evaluation of the CCS commissioned by the Morrison Government found that the activity test changes had not resulted in any discernible change in labour market participation, but adversely impacted on disadvantaged children accessing ECEC.

In 2023, the ACCC recommended “Removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to disadvantaged children accessing care and creating a barrier to workforce entry or return for some groups.” It found that the activity test:

- Impacted the affordability for low income households, with those with a capped 24 hours CCS paying on average for 27% more hours that were unsubsidised.
- Increased the complexity of the CCS and was challenging for culturally and linguistically diverse households.
- Made workforce participation more difficult for parents in casual and variable work, who face the risk of misreporting irregular work hours and being left with a debt.

The 2024 PC final report confirmed these findings and recommended significant reforms to the activity test. Significantly, the PC found that the benefits of access to early learning are so significant that all children should be entitled to access at least three days of early learning to give them the best start to learning. Over 80% of children are already accessing at least three days ECEC but those missing out are mostly from low income families who would benefit most. However, 66% of CCS 24 and 63% of CCS 36 families had unsubsidised hours, forcing low income families to spend more on ECEC than for other families (as a % of income) (table 6.13)

Goodstart agrees with this approach, which supports our experience that families on the bottom rungs of the activity test are more likely to have irregular work patterns, insecure work, or other complexities, such as caring for relatives, which mean they still need ECEC but pay a much higher out-of-pocket cost of unsubsidised hours.¹ The three day guarantee is evidence based² and will make a big difference to children who need ECEC most. It will also cut red tape for working families where one parent works part time by reducing the need for them to report to centrelink. The cost of the three day guarantee is not overly high – \$129m per year according to MYFEO – as most families already meet the activity test and attend for 3 or more days of ECEC.

Who will benefit most from the Three Day Guarantee?

The Government estimates that the Three Day Guarantee will improve affordability for around 66,700 children, overwhelmingly from low income families.

The PC report estimates that full abolition of the activity test would have increased ECEC usage would increase by around 5% - 15% for families in the least advantaged quintile, 5% for families in the next quartile, 1% for families in the third quartile and by 0% for families in the top quartile.³

Goodstart estimates that around 40,000 additional children from low income households will be able to access ECEC as a result of the Guarantee. Our analysis across of Australia's 87 SA4 regions shows that of the 35 regions that benefit most from reform of the activity test, 22 are in regional areas.

Children in low income households or regional areas are less likely to access ECEC and will be key beneficiaries of changes to the activity test - their participation has fallen since 2019.

Proportion of children attending CCS approved ECEC services

Household type	% in the community	% in ECEC 2023	% in ECEC 2019	% change
Low income	25.7%	21.1%	23.4%	-2.3%
Regional areas	24.3%	22.4%	22.9%	-0.5%
Remote areas	2.3%	1.0%	1.1%	-0.1%

(ROGS 2024 table 3A.15)

A key driver in declining participation of low income families in ECEC has been the decline in families accessing the 'Low income safety net' of CCS 24, from 31,440 families in 2019 to just 7,600 families in 2023.

Children from low income families: Analysis by the ACCC and the PC found that children from low income families are disproportionately impacted by the activity test, with families often funding unsubsidised hours as they struggle to give their children access to at least two days of ECEC. This contributes to the lower participation rate of low income families in ECEC, even though evidence shows that these children benefit most from ECEC.⁴ Lack of access to multiple days of ECEC also makes it harder for their parents to find work and accept shifts.

Children with no working parents or from couple families with one working parent impacted: Children from families with no working parents or from couple families with only one working parent are more likely to start school developmentally behind than the children of two income couples, and are less likely to meet

¹Impact Economics (2023), Child care subsidy activity test: incentive or barrier to labour force participation?

²Centre for Policy Development (2021) Starting Better: A Guarantee for Young Children and Families.

³ PC Report (2024) figure 6.19

⁴ Goldfeld S, et al (2016) The role of preschool in promoting children's healthy development: evidence from an Australian population cohort, Early Childhood Research Quarterly 35 (2016) 40-48 <http://dx.doi.org/10.1016/j.ecresq.2015.11.001>

minimum standards for reading in NAPLAN tests.⁵ By targeting the children of non-working families and couple families with only one working parent, the activity test expressly targets and disadvantages children more likely to start and finish school developmentally behind their peers.

Children in regional areas more likely to be impacted than children living in capital cities: The AIFS evaluation found that low income, low activity (CCS 24) families are more prevalent in centres in regional areas, making up 3% of families in regional area compared to 1.7% of families in capital city services. CCS 36 was also more prevalent in the regions than in the capital cities.⁶

Hours of CCS entitlement per fortnight – regional distribution of families - Q4 2019

Location	24 hours	36 hours	72 hours	100 hours
Capital cities	1.7%	3.9%	25.7%	67.9%
Major cities 100k+	1.8%	4.2%	28.4%	65.1%
Smaller towns 10k-100k	2.8%	4.9%	29.9%	61.7%
Inner regional	2.9%	5.5%	32.1%	58.8%
Outer regional	3.2%	6.4%	31.5%	58.0%
Remote	3.3%	4.9%	26.2%	64.9%

Many of these communities offer few opportunities or supports for parents with young children to enter the labour market. Goodstart centres in low-SEIFA areas (SEIFA 1-3) had lower occupancy than centres in higher SEIFA areas in the three years following the introduction of the CCS, with centres losing some families because of the activity test.

Areas with low maternal workforce participation rates also have high levels of developmental vulnerability of children when they start school. Of Australia's 87 SA4 regions, 28 of 39 regional areas had below average workforce participation rates of women aged 25-34 years, 25 also reporting above average levels of child developmental vulnerability, and 19 had below average ECEC participation rates for 0-5 year olds.

SA4 region type	Labour participation of women aged 25-34 years 2024 %		Developmental vulnerability rate in children in Year One 2021 %		% Children aged 0-5 in ECEC (Dec 2023)	
	Below Average	Above Average	Below Average	Above Average	Below Average	Above Average
Major city	19	29	32	16	18	30
Regional	28	11	5	34	21	18

Analysis based on publicly available data from the ABS and the Dept of Education quarterly CCS stats

While ECEC supply is an issue in some regional areas, the activity test is also clearly acting to prevent many children who would benefit from ECEC from attending in regional areas. Our analysis across of Australia's 87 SA4 regions shows that of the 35 regions that benefit most from reform of the activity test, 22 are in regional areas.

Will there be enough spaces?

In September 2024, there were 845,980 children in centre based day care across Australia. We estimate that centres has an average occupancy of around 80%. This implies that around 223,694 additional children with three day bookings could be accommodated within the current centre footprint, an increase of . Occupancy varies – it is higher in New South Wales and Queensland. This analysis also ignores family day care or outside school hours care, which would also be able to accommodate additional children:

⁵ ABS 4261.3 - Educational outcomes, experimental estimates, Queensland <https://www.abs.gov.au/ausstats/abs@.nsf/mf/4261.3>

⁶ AIFS (2021) Evaluation of the Child Care Subsidy Final Report p. 209

Estimate of additional children who could be accommodated in centre based day care – Sep Qtr 2024

	Children	Average Weekly Hours	CBDC Places	Estimated occupancy rate	Extra children who can be accommodated
NSW	273250	33.9	209457	84%	55026
VIC	214820	34.1	182272	77%	71235
QLD	191070	36.9	163272	82%	48295
SA	51450	31.4	39051	79%	13798
WA	78060	30.5	58555	77%	22010
TAS	13260	27.9	9319	76%	3787
NT	6980	38.8	6681	77%	2537
ACT	17580	34.4	15722	73%	7005
AUST	845980	34.1	684329	80%	223694

(Source: Childcare in Australia CCS quarterly statistics, ACECQA NQS Snapshot)

Averages hide localised shortages, and across Australia there are many markets where supply is very tight. This is particularly the case in rural and remote areas, where small local populations make stand alone early learning centre commercially unviable. The Building Early Education Fund has been commissioned to address these so-called child care deserts, and will support the development of 160 high quality not for profit centres in these communities. Goodstart, which is Australia's largest provider of ECEC in regional Australia with a footprint of over 200 centres already, welcomes the establishment of the Fund and looks forward to working with Government to establish these much needed centres.

Goodstart would encourage the Committee to support the Building Early Education Fund and encourage the Government to work with the States and Territories, local governments, ECEC providers and philanthropists to establish criteria and operational rules for the Fund as soon as practicable. For the Three Day Guarantee to be meaningful, every child who wants a place should be able to find one, regardless of where they live.

How will Government connect with families experiencing disadvantage?

Having established an entitlement to early learning, Goodstart would encourage the Government to work closely with the sector and with community services to engage with families experiencing disadvantage to ensure that they are aware of the benefits of accessing early learning.

Carefully targeted communications campaigns should be developed, and engagement and outreach activities commissioned. For example, the PC inquiry acknowledged that the administrative processes required for a family to access ECEC can act as a significant barrier to navigate for families experiencing disadvantage. It recommended that a system navigator role should be trialled alongside the immediate changes to ISP funding discussed above (recommendation 7.2). The PC Final Report positively referenced existing programs, such as the Increasing Access and Participation Program delivered by Goodstart in partnership with State Governments in Victoria, South Australia and Queensland to support children known to child protection to access early learning, and Uniting NSW/ACT's Links to Early Learning program (pp. 427-429).

Goodstart encourages the Federal Government to use the learnings from these programs to fund more system navigator programs across Australia as part of its service- and community-level inclusion investments.

Supporting affordability of universal access to ECEC

Ensuring low income families are able to access a place is one thing. Ensuring that they can afford to take up a place is quite another. Improving affordability of ECEC has been identified by the Productivity Commission report as a key reform priority of building a universal ECEC system. It identified cost as a particular barrier to access for low income families:

“Notwithstanding higher CCS rates, families on the lowest incomes spend more on ECEC than middle income families as a share of their income (figure 7). While out-of-pocket expenses as a share of income are reasonably similar for many cohorts, that does not mean that they affect families equally. Financial resources are more constrained for lower-income families which makes them more sensitive to price. This is likely contributing to lower participation rates in ECEC, particularly for children and families experiencing disadvantage.” (p. 28)

The PC also found that a universal ECEC system would have substantial benefits for Australia:

“The implementation of these reforms will have a measurable effect on children’s outcomes, as reflected in the Australian Early Development Census, and more children will start school developmentally on track. Outcomes for families are also likely to improve, including through their ability to work hours that suit them. Better inclusion policies and greater availability of services will give more families the ability to make choices about how much time they spend working, training, volunteering or studying.” (p. 7).

Goodstart’s analysis of the PC’s recommendations on affordability demonstrates all families will benefit from these changes and, consistent with the PC’s statement, half of Goodstart families would be eligible for CCS rates of 90% or more and nearly 80% would be eligible for CCS rates of over 75%. Further, implementing these affordability measures would result in over 40% of Goodstart children having out-of-pocket costs of less than \$20/day.⁷

Goodstart supports the recommendations to the PC report to reform the CCS rates, specifically to establish a 100% CCS for low income earners, increase the CCS rates for other families by around 10% and align HCCS rates to the CCS taper (recommendation 6.1).

It is worth noting that the reforms to the CCS taper made in 2022 and 2023 have supported a significant increase in children accessing ECEC and in women’s workforce participation. This is despite a significant squeeze on family incomes due to higher costs of living and workforce shortages impacting availability of ECEC. As these pressures ease, improving affordability is likely to have a significant impact on child participation in ECEC and workforce participation. For example, since Victoria introduced free kindy for 3 year olds, participation by 3 year olds in ECEC has risen from 50% to 80%.

Year	% of children aged 1-5 in CCS services (Sep QTR)	% maternal workforce participation, youngest child aged 0-5 (June QTR)	% Reduction in net child care costs since Sep 2021
2021	56.0%	67.2%	0
2022	57.1%	67.7%	-5.4%
2023	57.8%	69.7%	-15.3%
2024	58.3%	70.6%	-6.2%

(Source: Childcare in Australia Quarterly Statistics, ABS 3101.0 Population by Age, ABS 6224.0 Labour Force Status of Families; ABS Consumer Price Index)

⁷ This considers CCS contributions only. More children are likely to have out-of-pocket costs of less than \$20/day as a result of state preschool subsidies, third party contributions or programs, etc.

Setting the default withholding rate on CCS payments at 0% rather than the current 5% is particularly important if the CCS rate is to be set at 100% as recommended by the PC, otherwise ECEC will not be 'free'. The PC analysis found that the policy rationale for the withholding rate is weak as few families generate debt, and that these tend to be middle and upper income families. Whereas, 80% of families with reconciled incomes did not incur a debt and, of those that did, just 11% had incomes below \$100,000 (PC p. 376-377). Low income families are less likely to generate debts because their CCS rates are less likely to change (particularly if they are under the low income threshold).

The current 5% withholding rate particularly penalises low income families who receive higher CCS rates by reducing their weekly subsidy amount and therefore increasing their out-of-pocket costs (PC p. 361). A key reason why debts are incurred is because families have not 'reported' their taxable income, which might be better addressed by more effectively encouraging families to do so.

The PC recommended that the family withholding rate be set at 0%, with families given the option of updating the rate whenever they update their details (recommendation 6.4). Goodstart strongly supports this recommendation as a key systemic change to improve affordability.

Goodstart also recommends increasing the hourly rate cap for centre based day care and indexing it to align with the allowed increase in fees under the wages subsidy program to ensure that affordability does not decline over time as indexation of the cap has not been keeping up with increases in child care costs.