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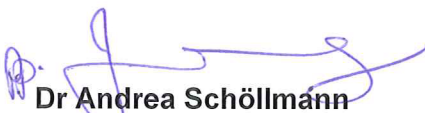
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Education Report: A summary of overseas funding reviews of schooling and early childhood education

Recommendations

We recommend that you:

- a. **note** that this report responds to your request for information about recent reviews of early childhood care and education and schooling funding systems undertaken by other countries
- b. **note** that the reviews identified by the Ministry generally aim to move jurisdictions closer to funding systems more like our systems, with changes including:
 - a preference for core funding per student (according to the stage of schooling) supplemented by bands of funding to target particular needs
 - the major share of funding being distributed according to student rather than institutional requirements
 - greater delegation of funding to schools
 - greater flexibility by institutions to use their resources.
- c. **note** the reviews identified by the Ministry have not recommended an exclusively student based model or one where a student with particular characteristics generates the same funding irrespective of the school they attend
- d. **note** that there are insights for New Zealand from these reviews about how to approach a review, thinking about simplification, and options for sharpening accountability.


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NOTED / APPROVED



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Education Report: A summary of overseas funding reviews of schooling and early childhood education

Purpose

1. This paper responds to your request for information about recent reviews of early childhood care and education and schooling funding systems that have been undertaken by other countries.

Summary

2. International jurisdictions are paying increasing attention to the functioning of early childhood education (ECE) and school funding systems. This is a recent trend and much of the current international policy thinking on this subject is in its preliminary stages.
3. The recent reviews of funding systems that the Ministry has identified generally aim to move jurisdictions closer to the principles underpinning the New Zealand model, such as:
 - a preference for core funding per student (according to the stage of schooling) supplemented by bands of funding to target particular needs
 - the major share of funding being distributed according to student rather than institutional requirements
 - greater delegation of funding to schools
 - greater flexibility for schools to use their resources, supported by stronger accountability.
4. There are, however, insights from these reviews for New Zealand about how to approach a review, thinking about simplification, and options for sharpening accountability.
5. This paper sets out the themes of these reviews and includes a summary of each of the reviews considered (as appendices).

Reviews considered and approach

6. We have identified a small number of substantive overseas reviews of funding arrangements for schooling and ECE. None of the reviews have comprehensively considered funding of provision from age 0 to 18.¹
7. Appendices A to D provide information on the following national and state reviews of school funding:
 - Australian Commonwealth Government review of school funding (Gonski Review) (Appendix A)

¹ The Northern Ireland review considers funding for nursery classes within schools. The Western Australian review addresses funding for pre-school education in the year immediately before school.

- Western Australian review of funding for public schools (Appendix B)
 - Northern Ireland review of the Common Funding Scheme (Appendix C)
 - United Kingdom review of school funding – national funding formula (Appendix D).
8. Appendices E and F provide information on the following reviews of early childhood education (ECE):
- New South Wales review of funding for Early Childhood Education (Appendix E)
 - Australian Productivity Commission Inquiry on Early Childcare and Early Childhood Education (Appendix F).
9. Our review of international experience has been largely a desk-based exercise, drawing on published reports, information on government websites, and media commentary. We have not directly sought information from, or verified information with other governments, with the exception of Western Australia.

Common themes

Funding systems are a recent focus

10. The review of school and ECE funding systems has not been a major policy focus over the last ten years. In the case of ECE, the policy focus for many jurisdictions has been on institutional arrangements that support the integration of care and education, rather than fundamental reviews of how provision is funded. Similarly, in the schooling context the policy focus has tended to be on raising the quality of teaching. A focus on funding systems is a more recent focus. The OECD started work in 2013 on school funding.

Other jurisdictions are embedding design principles used in the New Zealand funding models

11. The funding systems in the jurisdictions we have examined started from positions which were behind New Zealand's current arrangements in many ways. For example, the UK review seeks to establish a more consistent national approach to schooling using a formula based approach – bringing the system more in line with New Zealand arrangements. In the case of Western Australia, the previous funding arrangements were characterised by greater complexity and less flexibility for schools in the use of resources than New Zealand's arrangements. As a result of the review, however, Western Australia has now moved past New Zealand in terms of simplicity of the funding formula.
12. At a system level the reviews do not involve a radical shift in thinking in approaches to funding systems. That said, there are specific aspects of the approach adopted in some of the reviews (e.g. strengthening accountability) that will be worthwhile exploring in more depth at the system design stage of our Review of Funding Systems.

A focus on the student paired with greater flexibility and accountability

13. While each review's recommendations are context specific, there are some similarities. These include a preference for:
- core funding per student (according to the stage of schooling) supplemented by bands of funding to target particular needs
 - the major share of funding being distributed according to student rather than institutional requirements
 - greater delegation of funding to schools
 - greater flexibility for schools to use their resources, supported by stronger accountability.
14. A number of the reviews are positioned at a high level, seeking a student centred funding system or a 'per student funding model'. In the case of the reviews of school funding, none recommend an exclusively student based model or one where a student with particular characteristics generates the same funding irrespective of the school they attend. Rather the reviews tend to shift the balance between a core per student funding rate and institution specific funding. The new funding regimes continue to provide funding (even if paid on a per student basis) to take account of school size, location and/or the concentration of disadvantage within a school.

Models for a review

15. With the exception of the UK review, the reviews are characterised by a substantive role for an independent body in providing recommendations for reform. The Australian review on Childcare and Early Childhood Education was undertaken by the Productivity Commission (an Independent Authority); other reviews were led by established researchers or panels chaired by prominent figures. In most cases, government officials provided the reviewers with secretarial support, data, or analysis.

Managing change and redistribution

16. Managing sector and community opposition to the potential redistribution of resourcing between individual schools and ECE providers appears to have been one of the motivations for using independent experts to make recommendations to the government. Where reviews have recommended changes which involve the redistribution of funding across the school or ECE sector, transition arrangements – including the timeframe for implementing change – have been important. In some cases the shift in relative balance of resourcing has been achieved through the reforms going hand-in-hand with additional funding.

OECD School Resources Review

17. The OECD is currently undertaking a review entitled *Policies to Improve the Effectiveness of Resource Use* in schools. The overarching objective of this work is to synthesise and disseminate evidence on policies that best ensure that school resources are effectively used to improve student outcomes. The key themes of the review are the effective use of resources, resource distribution, resource utilisation and resource management. It will seek to examine the factors shaping the effectiveness of resources used in school systems, the challenges faced by systems and possible policy responses.

18. The review is drawing on research literature and in-depth country reviews.² This review phase is underway and it is likely that its key insights and recommendations will not be available until late in 2016.

Next Steps

19. The Ministry is considering the implications of these reviews for the Education Work Programme: Review of Funding Systems.
20. We plan to provide you with a further report on the scope and timing of the review of funding systems shortly.

² In-depth country reviews are Kazakhstan, the Slovak Republic, Estonia, Belgium, Lithuania, Uruguay, Denmark, Chile and Austria.

The Context

1. The Council of Australian Governments (COAG) identified the need for a review of school funding in 2008 when the 'Melbourne Declaration' was agreed, which includes goals for equity, excellence and high-quality schooling. The review was announced in April 2010, with the intention that changes would be implemented as part of the 2013 quadrennial funding agreement between the Commonwealth and state and territory governments.
2. In 2010 the Commonwealth Government's funding arrangements for schools had been in place for 10 years. In announcing the review Julia Gillard (as Minister for Education) referenced concerns that the system for funding non-government schools - based on a measure of social economic status of students and a measure of average public school costs - unfairly disadvantaged government schools. She explicitly raised the issue of adequacy³ and the need for a funding system to reflect the extra costs involved in overcoming disadvantage associated with remoteness of location, disabilities and special needs, indigeneity and other socio-economic and cultural factors.

Process

3. The review was undertaken by an expert panel chaired by David Gonski, the former Chancellor of the University of New South Wales. The five other panel members had been prominent in education, politics, philanthropy, and business.
4. A discussion paper and draft terms of reference were released for consultation in late April 2010, in conjunction with the announcement of the review panel.⁴ The terms of reference were finalised in early July 2010, with the panel required to provide its final report by the end of 2011. The panel was tasked with undertaking a review which was open, transparent and consultative.⁵
5. The final terms of reference were wide-ranging (covering funding and regulation across government and non-government schooling sectors). They were strongly focused upon developing a funding system that would help produce the best educational outcomes whilst addressing barriers to educational achievement. Particular focus was on establishing the level of funding required to achieve desired educational outcomes, and the most effective means of distributing funding.
6. The panel undertook a preliminary stakeholder listening tour, releasing an emerging issues report based on this engagement in December 2010, on which it sought public comment. It also commissioned research reports relating to funding for disadvantaged students; an assessment of existing funding models for schooling in Australia; the feasibility of a national schooling recurrent resource standard; and schooling challenges and opportunities. A summary of this research was released for public comment in August 2011. The panel reported in December 2011.

³ "What is the fundamental entitlement needed to provide a child with a high quality education".

⁴ The terms of reference were subsequently updated in November 2010, to reflect the change in the Minister for Education.

⁵ Notwithstanding the use of an expert panel, there was some criticism that the Gonski Review was too dependent on the Commonwealth Department of Education.

Findings and recommendations

7. The review found that current funding arrangements were overly complex, lacked coherence and transparency, and there were overlaps and imbalances between the Commonwealth and state and territory governments. The Commonwealth Government funding arrangement was based on an outdated average cost measure with the result that funding did not directly relate to schooling outcomes, nor did it take into account the full costs of educating students to an internationally high standard. Indexation arrangements were inadequate, funding for school capital and infrastructure was uncoordinated, and many schools in the government sector were suffering from a lack of capital investment.
8. The panel proposed a new schooling resource standard, consisting of separate per student amounts for primary and secondary students, with loadings for the additional costs of meeting certain needs (remoteness, indigeneity, special needs, ESOL, small schools). It recommended a funding premium where there was a concentration of disadvantage within a school.
9. The panel's recommendations involved a significant increase in government funding - \$5 billion a year based on 2009 arrangements.
10. The panel recommended a more balanced alignment of responsibilities between the Commonwealth and state and territory governments for the funding of government and non-government schools. It also recommended an independent body to oversee school funding.

Resulting funding changes

11. The Government responded to the Gonski recommendations in September 2012. It accepted most⁶ of the recommendations, and developed a new national needs-based funding system for schools which was to be implemented over six years from 2014 to 2020 and would have cost an additional \$6.5 billion each year when fully implemented. The funding model was to be implemented alongside an improved framework for schools and teaching. The Commonwealth Government entered negotiations with state and territory governments.
12. The reforms were not implemented following the September 2013 Australian Federal election and the resulting change in government.

⁶ It did not accept the recommendation for an independent body to oversee school funding.

Context

1. Western Australia commenced a review of funding for public schools in 2010. The review was intended to support a wider programme of reform which gave schools greater autonomy. The Government was also concerned that existing funding arrangements were excessively complex and unable to tackle problems of low performance and educational disadvantage. The Western Australian Government was also anticipating changes to Commonwealth funding for schools.

Process

2. The basis for the review was a report by the Centre for Research on Education Systems at the University of Melbourne, commissioned by the Department of Education. The review was to report on the best model for resourcing public schools so they could deliver education that meets the needs of all students. Particular issues to be addressed were how to link school funding with student needs and ensure that the funding arrangements supported enhanced school-level autonomy in decision making.
3. Key features of the work were:
 - a detailed examination of the patterns of resource use of a sample of schools selected on the basis of performance. Measures included state test results, attendance, school completion and transition to education, training and employment
 - an online survey of principals' views on the challenges their schools faced, funding issues, and what they felt should be the way forward
 - consultation with professional associations and small groups of principals.
4. The report was submitted to the Government in February 2012.

Findings and recommendations

5. Key findings of the research were that:
 - existing funding arrangements did not sufficiently support school autonomy
 - schools serving the same types of students received widely differing amounts of resources
 - relative to comparable jurisdictions, Western Australia focused a high proportion of resources upon the last years of secondary school
 - more resources did not necessarily result in better outcomes; how schools used their resources was important.
6. Key features of the proposed model were:
 - core funding delivered through a uniform price per student

- a separate base allocation to schools to cover minimum running costs
- separate lines of funding to address isolation and small size
- an allocation for disadvantage based on the relative concentration of students from low socio-economic (SES) backgrounds and derived from information provided annually by parents on their education and occupation⁷
- disability, English as a Second Language (ESL) and refugee funding based on clinically or pedagogically assessed needs of individual students.

Resulting funding changes

7. In August 2013 Education Minister Peter Collier released the report. He announced a new funding model which was implemented from the 2015 school year, with a five year transition period. The reforms involve a redistribution of funding between schools, especially from secondary to primary.
8. The funding model has two categories of funding:
 - per student funding - three separate funding rates from Kindergarten to year 6, and a single rate for years 7 to 12. This component accounts for the greatest share of funding
 - student and school characteristic funding:
 - Aboriginal allocation – per student allocation for eligible students; the weighting depends on the proportion of Aboriginal students in the school
 - social disadvantage allocation – a per student allocation for eligible students who reach the low SES threshold
 - English as an additional language/dialect allocation – a per student allocation for eligible students based on categories of need, and the teaching and learning adjustments required
 - disability – per student allocation based on categories of educational needs, and teaching and learning adjustments required
 - small school – per student allocation (differentiated for primary and secondary schools). Once a school reaches a certain size the allocation is phased out using a tapering mechanism
 - locality allocation – provided to eligible schools in isolated and remote areas. Isolation and location are defined by distance from key services and local contextual factors eg, utility costs.
9. The following costs continue to be paid centrally – capital works, scheduled maintenance, staff leave, housing and workers' compensation.
10. Schools have one-line budgets and the principal determines the proportion for salaries and for cash. The funding arrangement continues to use a variation of the staffing entitlement concept, with teacher salaries paid centrally.⁸

⁷ The use of information provided directly by parents to derive SES has not yet been implemented.

⁸ Salaries are charged against a school's budget at a standard rate equivalent to the average salary level.

Context

1. The Common Funding Scheme (CFS), first implemented in 2005, is a mechanism for distributing delegated budgets to schools' boards of governors. The CFS seeks to provide a consistent and equitable basis for funding all grant-aided schools⁹ and to reinforce wider education policy and objectives while supporting schools in delivering the curriculum. The CFS is drawn up annually, with each version taking effect from 1 April.
2. The review was announced in September 2011, with the objective that changes would be implemented from the 2013/14 school year. The Minister also announced a viability audit to identify schools under stress. There were 85,000 spare places in the school system, one third of primary schools had fewer than 100 students and 20 % of post primary schools had fewer than 400 students. It was suggested that these schools were not well positioned to deliver a curriculum fit for the 21st century and the network was not affordable.

Process

3. An independent panel was appointed in June 2012 to lead the review, and was required to report by the end of December 2012. The timeframe for implementation of changes was shifted to the 2014/15 school year.
4. The panel was led by Sir Robert Salisbury, a university professor and former head teacher and chair of a government task force on literacy. The two other panel members were an educational researcher who had overseen the country's national assessments in mathematics and English, and a specialist on the rights of people with disabilities. Secretarial support was provided by the Department of Education.
5. The terms of reference for the review were to:
 - ensure the revised CFS was fit for purpose and supportive of Government policies
 - determine whether existing funding streams that were outside the scheme should be incorporated within it
 - ensure that existing principles of objectivity, equality and transparency were embedded in any revised CFS, and that the scheme sufficiently targeted social need.
6. The panel collected information about the impact of the current funding arrangements. It accessed relevant research; met with representatives of stakeholder groups; consulted with relevant staff within the Department of Education, and made an open call for written evidence. All meetings were informal, and stakeholders were encouraged to provide evidence and offer suggestions for change.
7. The panel reported to the Government in January 2013. From June 2013 to October 2013 the Department of Education consulted on draft proposals from the Government, with this including the release of the report of the independent review panel as well as a draft Equality of Impact Assessment. Final decisions were announced in March 2014.

⁹ Except for special schools and schools established in hospitals.

Recommendations

8. The panel found that over the previous five years there had been real growth in funding per pupil, with particular growth at the primary level. Further, schools received different funding per pupil according to school characteristics, with school size the largest determinant of funding.
9. The panel concluded that funding was becoming disconnected from pupil educational needs. The CFS ran counter to wider government objectives by providing significant additional support for small schools (putting greater pressure on large schools), and providing relatively low funding for socially disadvantaged pupils. The panel also concluded that schools and funding authorities lacked disciplined budgeting and fiscal management.
10. The panel's recommendations included:
 - delegation of funding should be accompanied by accountability
 - monitoring, challenging, supporting and intervening in schools on financial management issues should be closely aligned to processes for school improvement
 - review of all earmarked funding; monitoring of this funding; intervention if expectations were not met
 - greater opportunities for peer support amongst schools, sharing of good practice and external expert advice
 - more funding for pupils from socially disadvantaged backgrounds
 - as much funding as possible distributed according to pupil rather than institutional needs
 - clarity over why a school is receiving a particular level of funding.
11. It further recommended that the CFS should be underpinned by the following principles: funding according to the relative needs of pupils and reduction of social disadvantage; consistent and fair funding; support for schools in delivering the curriculum; reinforcement of wider education policy; transparency and predictability.

Resulting funding changes

12. Changes implemented for the 2014/15 year included:
 - adopting the underpinning principles recommended by the independent panel with the exception of adding a further principle recognising the importance of school sustainability
 - introducing separate core per student funding streams for nursery/primary and for post primary schools – and a greater share of funding delivered through the per student funding streams

- continuing with three bands of funding for Targeting Social Need¹⁰, with increased funding distributed through this mechanism (but not as much as in the draft government proposals) and primarily targeted to band 3 schools (most disadvantaged)
 - retaining a level of funding for small schools
 - Increasing funding for Irish Medium curricular support.
13. The changes involved a redistribution of funding between schools. Transitional funding was provided to mitigate these effects in the 2014/15 year.

¹⁰ Further consideration will be given to the possible use of five Targeting for Social Needs Bands in the future.

Context

14. Funding arrangements for maintained schools are characterised by a middle layer – local authorities – which receive funding from the Department for Education (DfE) (in the form of a Dedicated Schools Grant (DSG)) distribute it across schools in their area. ‘Academies’ operate outside local authority control and are funded directly by the DfE.
1. Prior to 2013 the DSG for each local authority was calculated using a ‘spend plus’ methodology, involving a flat-rate increase on what the authority had received in the previous year plus a formula-based increase. Local authorities allocated this funding to schools using their own formulae, many of which were complex.
2. This meant that schools with similar intakes could receive very different levels of funding depending on where they were located. The arrangements also meant that it was impossible to provide comparable funding between maintained schools and academies, creating perverse incentives for schools to become academies.
3. In 2010 the Government announced it would develop a clear, transparent and fairer national funding formula based on the needs of pupils. The Government said that any reforms would not subject schools’ resourcing to sudden and dramatic change.

Process

4. The reform involved initial consultations and decision making on the broad direction of reform, followed by an iterative process of annual consultations on the specific elements of change to be implemented in the following year. This was seen as desirable because of the complexity of the existing arrangements, the extent of inequities and the need to secure changes in the behaviour of local authorities.
5. In April 2011 the Government released a discussion document on the aims and objectives of school funding, and the high level principles for potential reforms. It was proposed that the funding system should:
 - distribute money in a fair and logical way
 - distribute extra resources towards pupils who need them most
 - be transparent, easy to understand and explain
 - support a diverse range of school provision
 - provide value for money and ensure proper use of public funds.
6. The Government sought views on the appropriate level of local decision-making, what factors should be included in a funding formula, and transition arrangements for moving to a new funding model. Responses were received from schools and local authorities. Most agreed that the funding system needed reform, but there were mixed views on the balance between central funding and local flexibility to allocate funds to schools.
7. A consultation document (July 2011) sought perspectives on when a national funding formula should be implemented (2013/14 or 2015/16), and its elements. The DfE proposed a formula which involved a basic per pupil amount with additional funding per

pupil for deprivation; funding to protect small schools; an adjustment for areas with higher labour costs; and an additional amount for pupils with English as an additional language.

8. The DfE proposed to limit local flexibility of resource allocation. It recommended a basic per pupil entitlement, with additional funding for educational needs, rates, exceptional site factors, and lump sums for schools.

Resulting funding changes

9. In 2013/14 the number of factors allowed in local authority formulae was reduced, to begin the alignment towards a national funding formula. In 2014/15 local authorities were required to allocate a minimum percentage of their funding to schools on the basis of pupil characteristics, and to target additional funding for deprivation and other factors.
10. The reforms have involved some redistribution of funding between schools. To manage these effects the Government guaranteed that in 2013/14 and 2014/15 no school would face more than a 1.5% reduction in funding.
11. In July 2015 the Government announced additional funding for the 2015/16 school year for local authorities least fairly funded, based on minimum funding levels for five pupil characteristics: an age weighted per pupil amount, pupils from deprived backgrounds, looked-after pupils, pupils with prior low attainment, and pupils with English as a second language, as well as a minimum funding level for each school and essential small schools. It also announced that the next Parliament would prioritise introducing a full national funding formula.

Context

1. The review formed part of the New South Wales (NSW) wider plan ('NSW 2021') for rebuilding the economy and supporting stronger communities and quality services. The review sat alongside the implementation of the National Quality Agenda to improve ECE teacher-pupil ratios, increase the number of qualified teachers in ECE and deliver universal access to ECE.
2. There were three aspects to the review's terms of reference:
 - provide recommendations on universal access to quality ECE in NSW
 - develop an evidence-based funding system that targets disadvantage and improves participation, affordability, value for money, and accountability
 - propose how to pilot and evaluate the approved funding model and strategies.
3. The scope of the review was commercial, not-for-profit, and government-provided ECE services.

Process

4. In August 2011, Professor Deborah Brennan, a social policy academic at the Social Policy Research Centre, University of New South Wales, was appointed to chair the review panel. The panel had five members. It reported to the Government in April 2012.
5. The panel's approach was open and consultative. It released a discussion paper which sought submissions on funding principles. It asked how funding could encourage greater access to ECE (particularly by children from disadvantaged families), and target better the needs of each child. It also asked how Commonwealth and State funding could be better coordinated, how support for remote provision could be improved, and how ECE providers could be held accountable for outcomes and supported to improve quality.
6. The panel held two consultation forums with key stakeholders and visited service providers. A consultancy was commissioned to construct a working model of the NSW ECE sector.

Recommendations

7. The review found that approximately one in seven children was not attending ECE.
8. The review recommended principles to guide funding of ECE, and proposed that the largest share of ECE investment should be directed to services for children in the year before school. Services should offer programmes that meet a required standard of structure, delivery and environment. The review also recommended:
 - a per child subsidy scaled to family income, supplemented by equity loadings for disadvantage
 - free or almost free access to ECE for all children from low-income families

- support for access to preschools for disadvantaged children under three years old
 - a coherent strategy for supporting children with disabilities
 - accountability measures for ECE providers that reduce red tape
 - closer collaboration between schools, preschools and long day care centres, and a trial of cluster management for not-for-profit providers of ECE
 - programmes and scholarships to boost the numbers of qualified staff
 - capital funding to enable non-profit services to expand in areas with gaps in participation
 - an analysis of the cost of ECE provision
 - publication of key data on ECE services to allow for comparison
 - a consultative forum of key stakeholders to advise the Minister and the Department on matters relating to the sector, including advice on implementing the review's recommendations
 - a temporary freeze on subsidies to services that would lose out under the new model.
9. Although the panel had produced a working model of the ECE sector in NSW, it cautioned that there had not been time to trial its operation and, if the model were implemented, some of its assumptions may need to be corrected.

Resulting funding changes

10. In March 2013, the NSW Government announced that it accepted all of the major recommendations. It immediately announced the establishment of a capital fund to ease preschool supply and an increase in funding to improve affordability. It announced planned consultation on further funding changes for 2014. However, it noted that full implementation of the Brennan recommendations was contingent on additional funds from both the Commonwealth and NSW state governments.
11. In October 2013 the Government announced a new funding model for community pre-schools.¹¹ Key features included an increase in funding for children in the year before school and for disadvantaged 3, 4 and 5 year olds (Aboriginal children and children from low income families¹²). The new funding model is being implemented over a three year period, involving a 20% increase in funding.

¹¹ The arrangements do not apply to the 100 Department of Education and Communities preschools.

¹² Families holding Commonwealth low income Health Care Cards.

Context

1. In November 2013 the Australian Federal Government commissioned the Productivity Commission to undertake an Inquiry into childcare and early learning (ECCE). The Government highlighted its commitment to establishing a sustainable future for a more flexible, affordable and accessible child care and early childhood learning market. This would help to underpin the national economy and support the community - especially parents' choice to participate in work and learning, and children's growth, welfare, learning and development.
2. The Government identified issues relating to:
 - families not being able to find quality child care and early learning that is flexible and affordable enough to meet their needs and enable participation in the workforce
 - a small but significant number of children start school with learning and developmental delays
 - shortfalls in reaching and properly supporting the needs of children with disabilities, vulnerable children, regional and rural families, and parents who are moving from income support into study and employment
 - the need for services to operate in a system that has clear and sustainable business arrangements, regulation, planning and funding.
3. The terms of reference for the Inquiry were wide-ranging, extending beyond funding. The Government asked for recommendations on how to create a system that:
 - supports workforce participation, particularly for women
 - addresses children's learning and development needs, including the transition to schooling
 - is more flexible to suit the needs of families, including families with non-standard work hours, disadvantaged children, and regional families
 - is based on appropriate and fiscally sustainable funding arrangements that better support flexible, affordable and accessible quality child care and early childhood learning.

Process

4. The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues. Its independence is underpinned by an Act of Parliament.
5. The standard Productivity Commission process for an Inquiry was followed. An issues paper providing information and seeking submissions was released in December 2013. A draft report was released in July 2014, and public hearings held in August. The Commission submitted its final report in October 2014.

Recommendations

6. In making recommendations in relation to funding the Commission distinguished between funding attendance for preschool (in the year before starting school) and ECCE more generally. In regard to ECCE it recommended:
 - a system with a single child-based subsidy that is paid directly to the service for up to 100 hours a fortnight
 - a subsidy level of between 20% and 85% of a benchmark price for provision. The amount received would depend on means testing of the parents
 - eligibility for the subsidy to be subject to an activity test of 24 hours of work, study or training per fortnight, but with the following exceptions:
 - a. very low income families, to encourage them to enrol their children for up to 20 hours given the likely positive educational effect for the children
 - b. when the primary caregiver is a grandparent or other non-parent primary carer
 - c. families in exceptional circumstances, including when a family has experienced a sudden change in employment circumstances that would mean they no longer satisfy the activity test
 - extending subsidies to Australian 'home-based care services' (such as approved nannies). The rationale is to enhance the flexibility of ECE for parents needing to work irregular or non-standard hours
7. In relation to pre-school assistance, the Commission recommended per-child government funding in line with school funding for all children for up to 15 hours per week for 40 weeks. The funding level would not differentiate between preschools run by ECE centres and by schools.

Resulting funding changes

8. The Hon Scott Morrison, Minister of Social Services, released the report in February 2015. The extent to which the Government will adopt the Commission's recommendations is unclear. The Minister said the report would be a key input to the Government's new families package but stressed that it was a report to the Government and not by the Government.