



Free, universal and high-quality early childhood education and care	
Party:	Australian Greens
<p>Summary of proposal:</p> <p>The proposal would:</p> <ul style="list-style-type: none">• extend universal access to preschool to 30 hours a week for all 3-year-olds and 4-year-olds• provide 50 hours a week of free Early Childhood Education and Care (ECEC) for every child• transition to a system that directly funds childcare providers to deliver free, high-quality care for every family. <p>The proposal would start on 1 July 2025.</p>	
<p>Additional information (based on further advice provided):</p> <p>Under the proposal:</p> <ul style="list-style-type: none">• The Preschool Reform Agreement (PRA) would be expanded to provide the additional hours of preschool access to 3-year-olds and 4-year-olds outlined above.• The Child Care Subsidy (CCS) means tested payment (including the activity test) would be removed.• The 50 hours a week free ECEC would be limited to long day care, family day care, and in-home care.• During the transition period (2025-26 to 2028-29), childcare providers would be eligible to receive an amount per child that is equivalent to the average amount that they received per child in CCS and out-of-pocket fees from families in 2024-25.<ul style="list-style-type: none">– This amount would be indexed by 4.2% in 2025-26 (in line with the existing fee growth cap), and thereafter in line with the ABS Childcare Services Cost Index, to ensure that no childcare centre has its funding reduced under the changes.– Childcare providers will continue to receive pre-school funding in line with the PRA.• After the transition period, a newly established childcare commission (ECEC Commission) will determine per child rates based on location and other factors, such that the overall cost of the system increases in line with the ABS Childcare Services Cost Index and population aged 0-12 years relative to historical costs.• Regulatory approvals for ECEC providers are currently linked to the CCS. This would continue for ECEC payments in the new system.• ECEC providers would be able to request a review of their funding.	

Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balances by around \$36 billion over the 2025-26 Budget forward estimates period (see Table 1). This impact reflects a net increase in administered expenses for supporting childcare and preschool services and an increase in departmental expenses.

The underlying cash balance impact differs slightly from the fiscal balance impact because of a timing difference between when CCS expenses are recognised and when they are paid, as 5% of CCS entitlements in a financial year are withheld by Services Australia and paid in the following year. The new funding arrangements for childcare providers is assumed to have the same timing profile.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

The Parliamentary Budget Office (PBO) has not made any assessment as to whether the specified funding would be sufficient to meet the objectives of the proposal, including whether the provided funding is sufficient to meet the regulatory and operational requirements for administering childcare centres.

The PBO has also not undertaken an analysis of broader industry related implications for either the preschool or childcare systems that may result from this proposal. For instance, we have not analysed any changes in the number of employees in the early childhood education sector in response to this proposal. The proposal may create capacity issues for the early childhood education sector, particularly in the first few years, which could affect the implementation of the policy and its costs.

Table 1: Free, universal and high-quality early childhood education and care – Financial implications (\$m)^{(a)(b)}

	2025-26	2026-27	2027-28	2028-29	Total to 2028-29
Fiscal balance	-8,526.6	-8,956.9	-9,090.6	-9,670.6	-36,244.7
Underlying cash balance	-8,126.6	-8,956.9	-9,090.6	-9,670.6	-35,844.7

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Uncertainties

Preschool

The financial implications of this proposal are uncertain and sensitive to several factors, including:

- the behavioural responses from parents and preschool providers which would determine how many additional preschool hours would be offered for enrolment and enrolled under the proposal
 - Our assumptions were informed by a 2024 Productivity Commission (PC) report, which found that under the current offer of 15 hours a week, nearly 90% of eligible children are enrolled in a preschool program, but only 75% of them attend for the full 15 hours a week.¹

¹ Productivity Commission (2024) [A path to universal early childhood education and care - Inquiry report](#), p. 24, PC website, accessed 26 May 2025.

- uncertainties associated with how the childcare and preschool systems would interact under this proposal, in particular, where preschool and childcare are provided in the same setting.²
 - The PBO has not attempted to quantify potential savings due to the additional preschool funding being provided by the states and territories, or due to the expansion of State-government-run preschool programs.
 - The costing has accounted for the direct interactions between the preschool and childcare components of the proposal, in the form of CCS savings. This has resulted in the estimates of this costing being around \$700 million a year lower on average than the combined financial implications of the 2 components if they were costed separately.

50 hours a week of free Early Childhood Education and Care

As discussed in the 2024 Productivity Commission report, there are significant risks associated with supply-side funding models. The level of funding set by government as an average cost across the sector determines the viability individual services and incentives for providers to expand.

- Under the proposal, funding appropriation is based on a lagged aggregate indicator. This presents some risks for service providers.
 - Past cost movements may not be a good indicator for the future cost path, particularly during a period of rapid change.
 - Childcare markets (manifested in services, costs and fees) are highly localised. An aggregate cost indicator may not reflect an individual childcare service provider's cost structure.
 - The 2023 Australian Competition & Consumer Commission (ACCC) *Childcare Inquiry* final report³ found no clear evidence of profiteering in the sector, noting that:

'Most childcare entities or businesses do not appear to be making excess profits, and approximately 25% of childcare providers structured as companies are making almost no profit or suffering a loss.' (p.111)
- The Productivity Commission report also notes that if the supply-side funding is set at inappropriate levels, such funding models would lose value over time and drive unintended consequences around reduced quality and restricted supply of services.

In the context of the Australian childcare sector, insufficient supply-side funding would further constrain supply while excess funding is unlikely to rapidly incentivise expansion in service to meet increased demand, given significant staffing and skills shortages in the sector.

The proposal would likely result in a significant increase in demand for childcare. However, the impact on supply is highly uncertain with significant downside risks, as discussed above. Under the proposal, the funding for childcare service providers would be set by an ECEC Commission based on a lagged indicator of the average input costs across Australia. Allowing providers to seek a review of their funding under the proposal would work towards mitigating supply risks outlined above.

The financial implications of this component of the proposal are highly uncertain and sensitive to a range of factors, including the assumptions around:

- future movements in the newly established ABS childcare services cost index

² Productivity Commission (2023) [A path to universal early childhood education and care: Draft report](#), p. 606, the Productivity Commission (PC) website, accessed 26 May 2025.

³ Australian Competition & Consumer Commission (2023) [Childcare Inquiry](#), ACCC website, accessed 26 May 2025.

- the extent of behavioural responses from families that would change their childcare usage under the proposal and their income levels
- the behavioural responses from childcare service providers, including their supply of services and fees charged
- the number of days that eligible children would access eligible care
- future income growth of eligible families.

There are further uncertainties around financial impacts from in-home care (IHC) due to data limitations. As such, the policy impact from IHC, which is highly uncertain but likely to be small, is not included in this costing.

Consistent with our usual approach to costings⁴, the PBO has not attempted to quantify the potential broader economic impacts or the broader industry-related implications of this policy. This includes the policy's effects on the function of the early childhood education sector, the services provided, the fees charged, the incomes of childcare workers, or employment and hours of parents.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

Preschool

- For the purpose of this costing, we assumed the key policy settings of the current PRA, including the hours of preschool education supported by public funding, and the current roles, responsibilities and the funding split between the Commonwealth and the states and territories, would continue in the baseline beyond 2025. Our costing therefore represents a practical measure of the financial implications of a policy change from funding 15 hours a week preschool education to 30 hours a week.
 - In order to implement this proposal states and territories would be required to make considerable additional preschool funding commitments to match the additional Commonwealth preschool expenditure.
- The rate of 4-year-old preschool enrolments would remain unchanged, but their enrolled hours would increase from 15 hours to 30 hours per week in response to the proposal.
- The proportion of children enrolled in preschool programs by sector would remain unchanged.
 - The *PC's Report on Government Services* shows that of the children enrolled in preschool in the year before full-time schooling, around 70% are enrolled through Centre-based Day Care (CBDC) or a non-government preschool program.⁵
- The proportion of 3-year-old children enrolled in preschool programs would rise gradually from 77% to 88% over the first 5 years of the proposal.
- Families with 3-year-old children who currently use more childcare than the proposed preschool hours each fortnight would use childcare services to cover the additional hours of required care.

⁴ For further discussion of the PBO's approach to quantifying broader economic impacts, see [Including broader economic effects in policy costings](#).

⁵ Productivity Commission (2025) [Report on Government Services 2025](#), Table 3A.11.

50 hours a week of free Early Childhood Education and Care

- Aggregate hours of childcare and the population of children enrolled in CBDC and Family Day Care (FDC) would remain unchanged under the proposal as compared to the baseline. This is due to significant staffing and skills shortages.
- The proportion of CCS expenditure due to CBDC and FDC services would be maintained over the costing period, at around 91% of total CCS expenditure.
- Over the costing period, the Childcare Services Cost Index (CSCI) would grow annually by around 4.3% from 2025-26, consistent with historical trends in the CSCI over the period 2019-20 to 2024-25.⁶
- The financial impact of ECEC providers requesting a review of their funding is unquantifiable.
- Payments to childcare providers would be made 95% within year, with 5% of payments withheld until the following year, consistent with the current CCS arrangements.

Methodology

Administered expenses

Preschool

The financial implications of increasing government funded pre-school hours for 4-year-olds were calculated by multiplying the projected ongoing costs for this cohort by the increase in weekly hours specified in the proposal.

The financial implications for 3-year-olds were calculated by multiplying the number of 3-year-old children who are expected to attend preschool programs by the estimated per child cost of preschool.

Savings in CCS expenditure from the expansion of preschool programs duplicate with CCS savings under the *50 hours a week of free Early Childhood Education and Care* component of this proposal. As such, they are not calculated separately under this component.

⁶ Australian Bureau of Statistics (2025) [Producer Price Indexes, Australia – March 2025](#), Table 37. Childcare Services Cost Index, ABS website, accessed 29 May 2025.

50 hours a week of free Early Childhood Education and Care

The administered CCS expenses over the forward estimates period, as provided by the Department of Education under current settings, were reduced for the proportion of CCS due to CBDC and FDC services as per *Key Assumptions*.

Over the medium term, the CCS expenses were estimated using a bespoke childcare microsimulation model as at the 2025 Pre-election Economic and Fiscal Outlook (PEFO), updated with the December quarter 2024 CCS administrative data.

The fortnightly gross fees charged by childcare providers in 2024-25 were calculated using the December quarter 2024 CCS administrative data, which were annualised to arrive at a full year estimate. During the transition period (2025-26 to 2028-29) and beyond, the funding to childcare providers was indexed and grown in line with projected population as specified in the proposal as specified.

Departmental expenses

Departmental expenses, including implementation costs and the establishment of a new National Partnership Agreement, were estimated consistent with similar reforms.

Financial implications were rounded consistent with the PBO's rounding rules.⁷

Data sources

The Department of Education provided administrative data on the Child Care Subsidy system as at December 2024, and total Child Care Subsidy expenses over the period 2024-25 to 2028-29.

The Treasury provided economic parameters as at the 2025 PEFO.

Australian Bureau of Statistics (2024) [Introducing a new Childcare Services Cost Index](#), ABS website, accessed 23 May 2025.

Australian Bureau of Statistics (2025) [Consumer Price Index, Australia – March 2025](#), ABS website, accessed 23 May 2025.

Australian Bureau of Statistics (2025) [Producer Price Indexes, Australia – March 2025](#), ABS website, accessed 29 May 2025.

Australian Competition & Consumer Commission (2023) [Childcare Inquiry](#), ACCC website, accessed 26 May 2025.

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025*, Commonwealth of Australia.

Department of Education (2025) [Child Care Subsidy data report – December quarter 2024](#), Department of Education website, accessed 23 May 2025.

Department of Education (2025) [Early childhood wages](#), Department of Education website, accessed 23 May 2025.

Jobs and Skills Australia (2024) [Occupation Shortage List](#), JSA website, accessed 26 May 2025.

⁷ <https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules>

Jobs and Skills Australia (2024) [*The Future of the Early Childhood Education Profession: Early Childhood Education and Care Workforce Capacity Study Summary Report*](#), JSA website, accessed 26 May 2025.

Productivity Commission (2024) [*A path to universal early childhood education and care - Inquiry report*](#), Productivity Commission website, accessed 19 May 2025.

Productivity Commission (2025) [*Report on Government Services 2025*](#), Productivity Commission website, accessed 19 May 2025.

Attachment A – Free, universal and high-quality early childhood education and care – Financial implications

Table A1: Free, universal and high-quality early childhood education and care – Fiscal balance (\$m)^(a)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Expenses													
Administered													
<i>Funding for childcare providers</i>	-23,400.0	-24,400.0	-25,500.0	-26,600.0	-28,000.0	-29,400.0	-31,000.0	-32,700.0	-34,500.0	-36,400.0	-38,500.0	-99,900.0	-330,400.0
<i>Preschool funding for 3 and 4 year olds</i>	-1,310.0	-1,340.0	-1,390.0	-1,470.0	-1,580.0	-1,660.0	-1,740.0	-1,820.0	-1,910.0	-2,000.0	-2,080.0	-5,510.0	-18,300.0
<i>Child Care Subsidy</i>	16,200.0	16,800.0	17,800.0	18,400.0	19,300.0	20,200.0	21,100.0	21,900.0	22,700.0	23,400.0	24,000.0	69,200.0	221,800.0
Departmental													
<i>Departmental expenses</i>	-16.6	-16.9	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-34.7	-39.5
Total – expenses	-8,526.6	-8,956.9	-9,090.6	-9,670.6	-10,280.6	-10,860.7	-11,640.7	-12,620.7	-13,710.7	-15,000.7	-16,580.7	-36,244.7	-126,939.5
Total (excluding PDI)	-8,526.6	-8,956.9	-9,090.6	-9,670.6	-10,280.6	-10,860.7	-11,640.7	-12,620.7	-13,710.7	-15,000.7	-16,580.7	-36,244.7	-126,939.5

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

Table A2: Free, universal and high-quality early childhood education and care – Underlying cash balance (\$m)^(a)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Payments													
Administered													
<i>Funding for childcare providers</i>	-22,200.0	-24,400.0	-25,400.0	-26,600.0	-27,900.0	-29,300.0	-30,900.0	-32,600.0	-34,400.0	-36,300.0	-38,400.0	-98,600.0	-328,400.0
<i>Preschool funding for 3 and 4 year olds</i>	-1,310.0	-1,340.0	-1,390.0	-1,470.0	-1,580.0	-1,660.0	-1,740.0	-1,820.0	-1,910.0	-2,000.0	-2,080.0	-5,510.0	-18,300.0
<i>Child Care Subsidy</i>	15,400.0	16,800.0	17,700.0	18,400.0	19,200.0	20,200.0	21,100.0	21,900.0	22,700.0	23,400.0	24,000.0	68,300.0	220,800.0
Departmental													
<i>Departmental expenses</i>	-16.6	-16.9	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-34.7	-39.5
Total – payments	-8,126.6	-8,956.9	-9,090.6	-9,670.6	-10,280.6	-10,760.7	-11,540.7	-12,520.7	-13,610.7	-14,900.7	-16,480.7	-35,844.7	-125,939.5
Total (excluding PDI)	-8,126.6	-8,956.9	-9,090.6	-9,670.6	-10,280.6	-10,760.7	-11,540.7	-12,520.7	-13,610.7	-14,900.7	-16,480.7	-35,844.7	-125,939.5

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

Table A3: Free, universal and high-quality early childhood education and care – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^(a)

Fiscal balance	-180.0	-570.0	-990.0	-1,450.0	-1,950.0	-2,510.0	-3,130.0	-3,810.0	-4,580.0	-5,430.0	-6,410.0	-3,190.0	-31,010.0
Underlying cash balance	-140.0	-470.0	-880.0	-1,330.0	-1,830.0	-2,370.0	-2,970.0	-3,640.0	-4,390.0	-5,220.0	-6,160.0	-2,820.0	-29,400.0

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary⁸.

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

⁸ [Online budget glossary – Parliamentary Budget Office \(pbo.gov.au\)](https://pbo.gov.au/online-budget-glossary)