



**Australian Government**  
**Department of Education**

**Submission to the  
Productivity Commission Inquiry into  
Child Care and Early Childhood Learning**

3 February 2014

## Contents

<b>Contents</b> .....	<b>2</b>
<b>Tables</b> .....	<b>2</b>
<b>Figures</b> .....	<b>2</b>
<b>Acronyms</b> .....	<b>3</b>
<b>1 Introduction</b> .....	<b>4</b>
<b>2 Australia’s child care and early childhood learning sector</b> .....	<b>6</b>
2.1 Defining the sector.....	6
2.2 Recent CCECL sector trends.....	6
2.3 Current CCECL services .....	7
2.4 Parents’ workforce participation .....	9
2.5 Long term benefits for children and society .....	13
<b>3 Government’s role in child care and early childhood learning</b> .....	<b>15</b>
3.1 Regulation .....	15
3.2 Funding .....	16
3.3 Providing information for parents and providers .....	18
3.4 Setting national policies and standards .....	19
<b>4 Key issues for creating a sustainable CCECL system</b> .....	<b>20</b>
4.1 Under or over supply of child care in some communities .....	20
4.2 Some families lack sufficient information to make informed decisions .....	21
4.3 Duplication of regulation between levels of government .....	22
4.4 Some parents working outside traditional hours can find child care inflexible.....	23
4.5 Some families find the cost of child care an issue .....	24
4.6 Australian Government expenditure should be sustainable .....	27
4.7 Efficiency and effectiveness of government programmes .....	27
<b>Appendices</b> .....	<b>29</b>
Appendix 1: Australian government roles, policies and programmes .....	29
Appendix 2: Further details on child care subsidies .....	40

## Tables

Table 1: Child Care: Children, Families, Hours and Services, June quarter 2013 .....	9
Table 2: Preschool participation in the year before school (August 2012).....	9
Table 3: Participation of various groups of women.....	10

## Figures

Figure 1: Barriers and incentives to labour force participation for women, 2012-13 .....	12
Figure 2: Australian Government CCECL outlays, 2003-04 to 2016-17 (\$000) .....	17
Figure 3: Couple family, one child in LDC, 10 hours per day, fee \$7.40 per hour.....	26
Figure 4: Couple family, two children in LDC, 10 hours per day, fee \$7.40 per hour .....	26

## Acronyms

ARIA	Accessibility/Remoteness Index of Australia
ABS	Australian Bureau of Statistics
ACECQA	Australian Children's Education and Care Quality Authority
AEDI	Australian Early Development Index
BBF	Budget Based Funding
CCECL	Child care and early childhood learning
CCB	Child Care Benefit
CCR	Child Care Rebate
CCSSP	Child Care Services Support Programme
CCTR	Child Care Tax Rebate
CSP	Community Support Programme
CPI	Consumer Price Index
COAG	Council of Australian Governments
DHS	Department of Human Services
FDC	Family Day Care
FSF	Flexible Support Funding
GCCB	Grandparents Child Care Benefit
GDP	Gross Domestic Product
HIPPY	Home Interaction Program for Parents and Youngsters
HILDA	Household, Income and Labour Dynamics in Australia
IHC	In Home Care
IPSP	Inclusion and Professional Support Programme
ISA	Inclusion Support Agency/Agencies
ISS	Inclusion Support Subsidy
IPSU	Indigenous Professional Support Unit(s)
JET	Jobs, Education and Training
JETCCFA	Jobs, Education and Training Child Care Fee Assistance
LDC	Long Day Care
MYEFO	Mid-Year Economic and Fiscal Outlook
MACS	Multifunctional Aboriginal Children's Services
NAPLAN	National Assessment Program for Literacy and Numeracy
NISSP	National Inclusion Support Subsidy Provider
NPA	National Partnership Agreement
NQF	National Quality Framework
NQS	National Quality Standards
OCC	Occasional Care
OECD	Organisation for Economic Cooperation and Development
OSHC	Outside School Hours Care
PSC	Professional Support Coordinator(s)
SCCB	Special Child Care Benefit

# 1 Introduction

1. The child care and early childhood learning (CCECL) sector is important to a productive Australia. Access to affordable, flexible high quality child care supports families' engagement with study and work. Quality CCECL services can also help children learn and grow in the early years, contributing to their learning in school and later life outcomes.

2. A wide range of CCECL services are available in Australia, with a mix of public and private (both for and not for profit) providers. The foundation of the system is a set of market-oriented arrangements where parents make choices about the type of service they wish for their children and the price they are willing and able to pay.

3. Historically, the Australian Government's support for the CCECL sector was primarily to support the workforce participation needs of parents. More recently, based on evidence about cognitive and non-cognitive development in young children and the role played by quality early learning and development programmes, there has been an increased focus and expenditure on the quality of care and early learning.

4. The sector touches the lives of most Australian families, with almost every child now participating in some form of child care or early learning before entering school, or afterwards through outside school hours care. Based on the most recent data available, an estimated 1.2 million children were attending some form of approved<sup>1</sup> child care or early childhood education service in the June quarter 2013.<sup>2</sup>

5. CCECL is also a significant industry in its own right, providing employment for around 140,000 employees and generating revenues estimated to be over \$10 billion annually.<sup>3</sup>

6. Public expenditure on CCECL has grown significantly in recent years, with child care fees assistance one of the Australian Government's fastest growing major outlays. In 2013–14, expenditure on CCECL will be more than \$6.5 billion growing to around \$7.6 billion in 2016–17.<sup>4</sup> With this level of expenditure and

## Key Points:

- CCECL can support parents' workforce participation needs and provide effective early learning and development for children.
- The CCECL sector operates principally through market mechanisms, although government has a significant role in regulation, and the Australian Government is the single largest funder of the sector.
- This Inquiry is an opportunity to embed the strengths of the system and ensure it has a sustainable future.

<sup>1</sup> In this submission and unless otherwise indicated 'approved' means a child care service(s) that has been approved to administer Child Care Benefit on behalf of families and subject to Family Assistance law.

<sup>2</sup> Sources: Department of Education administrative data; ABS: *Preschool Education, Australia, 2012*, Cat 4240.0.

<sup>3</sup> Sources: Department of Education administrative data and the *Report on Government Services*. The Department of Education estimates the sector has turnover in excess of \$10 billion a year from all sources, based on extrapolations from Australian and state/territory governments' expenditures and child care fees data.

<sup>4</sup> 2013–14 Mid-Year Economic Forecast.

given the cost that child care can represent for many households, it is important to ensure that parents and taxpayers are getting value for money from the system.

7. This submission provides information on the CCECL sector, sets out the current role of government in the sector and identifies some key issues in establishing and maintaining a sustainable sector. It is also principally concerned with the CCECL sector as defined by approved care arrangements under the Australian Government's Family Assistance Law, in combination with preschool.

## 2 Australia's child care and early childhood learning sector

### 2.1 Defining the sector

8. Child care in Australia comprises formal and informal care spanning children from birth to 12 years and older. While this submission and the Inquiry are focused principally on formal care, it is important to acknowledge the role of informal care (such as non-regulated care provided by grandparents, other family members, or friends).

9. Although over recent decades there has been a trend away from informal care towards formal care provided by qualified educators, many families continue to use informal care. The Australian Bureau of Statistics (ABS) estimates that in June 2011, of the 3.6 million children aged birth to 12 years, around 864,300 usually attended formal care and 1.4 million usually attended informal care. An estimated 369,500 children attended both formal and informal care.<sup>5</sup> The mix between informal and formal care varies with the age of the child and the circumstances of the family.

10. Participation in a preschool programme (either in a stand-alone preschool or kindergarten, or in another setting, such as a Long Day Care centre), in the year or in some cases two years before starting full time schooling has also increased, reaching close to 89 per cent (266,036 children) in the most recent data.<sup>6</sup> Almost 38 per cent of children in a preschool programme in the year before school were in a Long Day Care centre, as opposed to a school-based or stand-alone preschool, indicating a high degree of integration between the two major parts of the sector.

**Key Points:**

- *CCECL encompasses a wide range of formal and informal care and education arrangements, and over a wide age range of children.*
- *This submission is focussed on approved child care and preschool in the year (or sometimes two years) before schooling.*

### 2.2 Recent CCECL sector trends

11. Based on ABS data, between June 1999 and June 2011 the number of birth to four year olds in formal care increased by 53 per cent, while the number in informal care over the same period decreased by 19 per cent. The corresponding figures for 5 to 11 year olds are an increase of 51 per cent in formal care and a decline of 23 per cent in informal care.<sup>7</sup>

12. This long trend is complemented by increases in the proportion of women – including mothers – in the workforce, driving an increased dependence on reliable, quality child care (although female workforce participation has not

**Key Points:**

- *The CCECL sector has grown from a 'cottage industry' to a large, dynamic and complex system.*
- *Growth has been driven by market dynamics and changes in government policies and funding.*

<sup>5</sup> ABS: *Childhood Education and Care*, Australia, June 2011, Cat 4402.

<sup>6</sup> ABS: *Preschool Education*, Australia, 2012, Cat 4240.0.

<sup>7</sup> ABS: *Childhood Education and Care*, Australia, June 2011, Cat 4402.0.55.003.

grown strongly in more recent years – see section 2.4 Parents' workforce participation).

13. In response to these demographic and economic trends and also driven by shifts in public policy and funding, the CCECL sector in Australia has grown from a small, fragmented 'cottage industry', characterised by separate mostly community-driven child care and preschool sectors to a diverse industry comprising a mix of for-profit and not-for-profit services.

14. Since 1991, for example, the number of approved child care services has almost quadrupled from around 4,000, and the number of children using child care has increased by a similar proportion. In 2010, the sector employed around 109,000 primary contact staff (around 140,000 when non-contact staff are included).<sup>8</sup>

15. In 2000, major reforms were introduced to the child care payments regime with the new Child Care Benefit (CCB), which underpins the current child care funding system. The means-tested CCB replaced both Childcare Assistance and the Childcare Cash Rebate.

16. In 2004, the non-means tested Child Care Tax Rebate (CCTR) was introduced, enabling families to offset up to 30 per cent of out of pocket costs up to a maximum amount of \$4,000 per year. In 2008, the CCTR became the Child Care Rebate (CCR) payment and was increased to 50 per cent of out of pocket costs, up to a maximum amount of \$7,500 per child per year.

17. There have also been significant changes to child care support for parents on income support. In the 2005-06 Budget for example the Jobs, Education and Training (JET) programme was changed to Jobs, Education and Training Child Care Fee Assistance (JETCCFA) as part of the suite of child care measures to support the Welfare to Work policy changes.<sup>9</sup>

18. In 2012, the National Quality Framework for (NQF) Early Childhood Education and Care commenced, with a progressive implementation of nationally consistent quality standards covering issues such as staff qualifications and staff to children ratios. There has also been a focus on increasing participation in early childhood education and supporting high needs groups, including Aboriginal and Torres Strait Islander children and families and vulnerable or at risk children.

### 2.3 Current CCECL services

19. The CCECL sector has a diverse array of service types, falling into two broad categories: centre-based and home-based. Centre-based care comprises Long Day Care, Preschool, Outside Schools Hours Care, Occasional Care and a range of integrated CCECL models, while home-based care includes In Home Care, Family Day Care, nannies, and most informal care.

**Key Points:**

- *The CCECL sector is characterised by a diversity of service types.*
- *The range of service types has been shaped by parents' needs and government policy settings.*

<sup>8</sup> 2010 National Early Childhood Education and Care Workforce Census, Department of Education.

<sup>9</sup> JET has existed as a programme in various forms since 1989.

There are also mobile child care and early learning services in rural and remote communities.

20. This diversity has been, and continues to be, shaped by parents' and children's changing needs and by government policy.

21. For example, to support workforce participation, Long Day Care centres are required to be open at least 48 weeks of the year for at least eight continuous hours per day to be eligible for CCB-approval, which has effectively created the Long Day Care operating model.

22. Limited CCB subsidies are available for registered (as opposed to approved) care providers. Registered care is child care provided by individuals who are registered as carers with the Department of Human Services (DHS). Eligible families using registered care receive a lesser rate of CCB than families using approved child care, as approved providers are required to comply with Family Assistance Law quality standards and other legislative requirements.

23. For a service provider to be approved for CCB it must meet the requirements of at least one of these care types:

- **Long Day Care (LDC)** – a centre-based form of care. LDC services provide all-day or part-time education and care for children.
- **Family Day Care (FDC)** – administers and supports networks of FDC educators who provide flexible care and developmental activities in their own homes, or in approved venues, for other people's children.
- **Outside School Hours Care (OSHC)** – provides education and care before and/or after school and/or care during school vacation time. Services may also open on pupil-free days during the school term.
- **Occasional Care (OCC)** – a centre-based form of care. Families can access OCC regularly or irregularly on a sessional basis.
- **In Home Care (IHC)** – a flexible form of care where an approved educator provides care in the child's home. The Australian Government limits the number of approved IHC places available in the market and new IHC services can only become CCB approved if places are available for allocation.

24. Table 1 provides data on approved child care, as at the June quarter 2013. The number of children in approved child care for that quarter equates to around 27.2 per cent of the relevant child population. This is an increase from 26.3 per cent in the corresponding period in 2012 and equates to approximately 72,000 children.

25. The number of children in child care increased by around seven per cent in this period. This year on year increase is part of an ongoing pattern of growing utilisation of approved child care services across Australia.

**Table 1: Child Care: Children, Families, Hours and Services, June quarter 2013**

	Children	Families	Hours/week (average)	Services
Long Day Care	606,710	498,010	27.2	6,310
Family Day Care & In Home Care	142,400	88,130	27.0	570
Occasional Care	7,650	6,400	10.9	119
Outside School Hours Care*	334,480	238,600	10.7	8,718
<b>Total*</b>	<b>1,057,900</b>	<b>742,690</b>	<b>23.5</b>	<b>15,717</b>

\* As children may use more than one service type in any particular quarter and due to rounding, the sum of the component parts may not equal the total.

Source: Department of Education administrative data.

26. Table 2 provides the most recent data relating to preschool participation in the year before full time schooling.

**Table 2: Preschool participation in the year before school (August 2012)**

	Children*	Hours/week (average)	Services
Preschool & Kindergarten	165,147 (55%)	14.6	4307
Long Day Care**	100,889 (34%)	19.7	3287
<b>Total</b>	<b>266,036 (89%)</b>	<b>16.4</b>	<b>7594</b>

\* Number and percentage of children in the year before school. Does not include children attending preschool who are not in the year before starting full time schooling.

\*\* Long Day Care overlaps with long day care in Table 1 above.

Source: Australian Bureau of Statistics.

## 2.4 Parents' workforce participation

27. In Australia, women spend more time providing unpaid caring work than men, with mothers spending on average 8 hours and 33 minutes per day caring for children under 15 years of age, compared to 3 hours and 55 minutes for fathers.<sup>10</sup> The impact of this is evidenced in the differences in workforce participation between women and men.

### Key Points:

- Both mothers and the Australian economy would benefit from increasing mothers' labour force participation.
- Many mothers would like to increase their hours of work.
- There is a financial disincentive to increase hours of work.

28. There is a 12.8 percentage point difference in the workforce participation rate of men (71.3 per cent) and women (58.5 per cent). It is also reflected in the proportion of women working part-time (46.2 per cent) compared to men (17.1 per cent).<sup>11</sup>

29. Table 3 shows how different circumstances impact on female workforce participation in Australia. The greatest effects (in order of significance) are: having four or more children; mother was a teenager when she gave birth to first child; mothers of children aged 0-5 years.

<sup>10</sup> ABS, 'Caring for Children', *Gender Indicators Australia* (Cat. No. 4125.0) August 2013 (using 2006 time survey data).

<sup>11</sup> ABS *Labour Force, Australia* (Cat. No. 6202.0), November 2013, seasonally adjusted.

**Table 3: Participation of various groups of women**

Group	Labour force participation rate (%)	Employment to population ratio (%)	Number ('000s)
Single parents <sup>(a, b)</sup>	64.3	56.9	745.0
Teenager when had first child <sup>(c)*</sup>	36.6	33.5	1107.6
Have at least 4 children <sup>(c)**</sup>	31.9	30.8	1017.6
Mothers of children aged 0 – 5 <sup>(d)</sup>	52.7	49.0	1233.7
Mothers of children aged 6-12 <sup>(d)</sup>	69.8	65.6	1315.6
Mothers of children aged 13-18 <sup>(d)</sup>	76.7	74.2	1383.7

\* Refers to a mother who had her first child as a teenager (measured as 18 years and under).

\*\* Refers only to natural and adopted children, not step or foster children.

(a): Calculated from Census 2011.

(b): Single parents in this context refer to single parent women who have dependent child/ren under 25.

(c): Estimated from Household, Income and Labour Dynamics in Australia (HILDA) Wave 11.

(d): Calculated from ABS Census 2006.

30. The Grattan Institute has estimated that if six per cent more women entered the paid workforce, the size of the Australian economy would be increased by about \$25 billion per year.<sup>12</sup> Similarly, the OECD has estimated that increasing the workforce participation of women so as to reduce the gap to men by 75 per cent could increase Australia's projected average annual growth in Gross Domestic Product (GDP) per capita from 2.0 per cent to 2.4 per cent.<sup>13</sup>

31. The barriers to female workforce participation are complex and interrelated, and child care is an important issue which disproportionately affects women. However, while some participation increases could result from a more accessible child care system, it is difficult to quantify the impact given the number of compounding factors affecting female workforce participation.

32. The OECD emphasises the issue of culturally ingrained gender stereotypes, which develop in early years of life, build during schooling years (and are reinforced by attitudes and norms in school environments) and continue throughout life in the workplace.<sup>14</sup>

33. Gender segregation in industries is an issue across many OECD countries, including Australia, as is the sharing of unpaid work and broken employment history for women who spend time out of the workforce to raise children and/or care for elderly parents/in-laws.

34. The relationship between child care fees and workforce participation is also complex. For example, a recent study for the Australian Government Treasury suggests that an increase in the net price of child care of one per cent leads to a decrease in hours of labour for partnered women of 0.10 per cent.<sup>15</sup> Other studies

<sup>12</sup> Daley, John (Grattan Institute), *Game Changers: Economic Reform Priorities for Australia*, June 2012.

<sup>13</sup> OECD, *Closing the Gender Gap – Act Now!* 2012.

<sup>14</sup> OECD, *Closing the Gender Gap – Act Now!* 2012.

<sup>15</sup> Gong and Breunig, *Estimating net child care price elasticities of partnered women with pre-school children using a discrete structural labour supply-child care model – Treasury Working Paper*, 2012. See also Kalb and Lee, *Childcare Use and Parent's Labour Supply in Australia – Melbourne Institute Working Paper No. 13/07, 2007*, which found a similar if smaller effect.

have shown that parents take into account the quality of care when making child care and workforce participation decisions.<sup>16</sup>

35. While the analysis for Treasury did not fully differentiate the impacts of the cost of child care on workforce participation for women of different income levels, women with lower earnings potential and families on lower incomes (for whom child care expenses may take up a larger part of their disposable income) would be expected to be more affected by child care price changes than those with higher incomes. Different effective marginal tax rates can also have a significant impact on women's incentives to participate in the workforce.

36. Figure 1 summarises the workforce situation for women in Australia and the main reasons for working or not working. These findings indicate that the cost of, and access to, child care, together with more flexible working arrangements (such as working part-time), are likely to be significant incentives (or disincentives) for women to join or increase their participation in the labour force.

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<sup>16</sup> COAG Decision Regulation Impact Statement (2009) Breunig *et al*, *The New National Quality Framework: Quantifying some of the effects on labour supply, child care demand and household finances* – 2011.

**Figure 1: Barriers and incentives to labour force participation for women, 2012-13**

Of the 5.4 million people **not in the labour force**, 3.4 million (62 per cent) were women aged 18 and over. Of those:

- 77.4 per cent (2.6 million) did not want a paid job, of those:
  - 31.6 per cent were permanently retired
  - 13.3 per cent were caring for children.

Of the total 1.2 million people who were **not in the labour force and wanted a job**, 770,500 (63 per cent) were women.

- nearly half (47.2 per cent) of these women cared for their own children.

Of the 3.4 million people who worked **part-time** (0-34 hours), 2.4 million were women. Of those:

- 1.8 million did not want to work more hours (31.0 per cent of whom cited caring for children as their main reason for not wanting to work more hours)
- 571,900 preferred to work more hours
- 241,500 were single female parents – 40.7 per cent of whom preferred more hours
- 1.6 million were parents in couple families – 19.5 per cent of whom preferred more hours
- 463,600 had a youngest child aged 0-4 – 21.1 per cent of whom preferred more hours
- 619,300 had a youngest child aged 5-14 – 24.2 per cent of whom preferred more hours.

Of the 1.4 million people **unemployed or wanting more work (and were looking and available to start)**, 508,200 (36 per cent) were women. Of those:

- 18.3 per cent cited 'no jobs or vacancies in locality/line of work/at all' as their main difficulty in finding work/more hours, while 1.9 per cent cited 'difficulties finding child care'.

Of the total 1.2 million people **available for work/more hours, but not looking for work/more hours**, 797 600 (66 per cent) were women.

- 19.9 per cent of this group (or 158,400 women) cited 'caring for children' as their main reason for not looking for work/more hours. Of these:
  - 36.1 per cent (or 57,200) cited that they 'preferred to look after children'
  - 21.7 per cent (or 34,400) cited 'cost/too expensive'
  - 19.7 per cent (or 31,248) cited 'child care not available/child care booked out/no child care in locality'
  - 13.5 per cent (or 21,400) cited 'children too young or too old for child care'
  - 9 per cent (or 14,200) cited 'other child care reasons'

Incentives to join the labour force or increase participation:

- Of those women with (or caring for) children who were not employed, or who usually worked part-time:
  - 56.2 per cent considered 'access to child care places' as a 'very important' incentive, with respect to increasing their participation in, or joining, the labour force, while 55.0 per cent considered 'financial assistance with child care costs' as a 'very important' incentive.

Source: ABS Barriers and Incentives to Labour Force Participation 2012–13.

37. Improvements in the affordability and availability of child care are likely to boost the participation of mothers in the workforce. This in turn benefits the overall performance of the economy.

## 2.5 Long term benefits for children and society

38. The early years of a child's life have a profound impact on their future cognitive, social, emotional and physical development. Ninety per cent of brain development occurs in the first three years of life and development in this period has more influence on learning and health outcomes than at any other time.<sup>17</sup> The skills and abilities acquired in early childhood are fundamental to a person's success and well-being later in life.

39. Research suggests that a positive early childhood provides both short-term and long-term individual social and economic benefits for the child, such as higher educational attainment, increased self-esteem and social development, higher earnings and home ownership, higher retirement savings and fewer social and health problems.<sup>18</sup> These benefits flow from the individual to society through reduced reliance on government welfare, reduced government investment in special education, lower crime and incarceration rates and increased tax revenue through higher earnings.

40. Given the increasing numbers of children participating in CCECL services, it is important that such services provide appropriate, positive early development opportunities for children. While all children may benefit from participating in quality early childhood services, children from disadvantaged backgrounds and those with additional needs such as a disability, benefit particularly.<sup>19</sup> However, data suggests that these children participate to a much lesser extent in early learning and care services than other children.<sup>20</sup>

41. In Australia, research is starting to show the significant benefit of early education programmes. Preschool attendance has been shown to be equivalent to 10 to 20 points in the National Assessment Program for Literacy and Numeracy (NAPLAN) or 15 to 20 weeks of schooling at the Year 3 level, three years after attending pre-school.

42. Research also shows that children whose preschool educator had a diploma or degree in early childhood education gained the most from attending preschool.<sup>21</sup>

43. The Australian Early Development Index (AEDI)<sup>22</sup> – shows that developmental vulnerability in children is not limited to those from low socio-economic backgrounds, but exists across the social and economic spectrum.

### Key Points:

- *The early years of life have profound and long term impacts.*
- *Children can benefit from participating in quality CCECL; children from vulnerable families particularly benefit.*
- *The Australian Early Development Index shows there is a relationship between early childhood vulnerability and later outcomes.*

<sup>17</sup> McCain & Mustard, 2002, *The Early Years Study Three Years Later*.

<sup>18</sup> Van der Gaag J, 2000, *Early Childhood Development to Human Development: Investing in our Children's Future*.

<sup>19</sup> Heckman, Grunewald & Reynolds, 2006 *The Dollars and Cents of Investing Early: Cost-Benefit Analysis in Early Care and Education*.

<sup>20</sup> *Report on Government Services*, 2013.

<sup>21</sup> D. Warren and J. P. Haisken-DeNew, 2013, *The Causal Impact of Pre-school Participation and Teacher Qualifications on Year 3 NAPLAN Cognitive Tests*.

<sup>22</sup> The AEDI is a population measure of children's development as they enter their first year of formal school. Information for the AEDI is collected through a teacher-completed checklist that measures five areas of early childhood development linked to the predictors of adult health, education and social outcomes.

While children from low socio-economic backgrounds are overly represented in the population of developmentally vulnerable children, they do not make up the majority of such children. Restricting programmes to vulnerable children in lower socio-economic group therefore risks missing the majority of children experiencing difficulties.<sup>23</sup>

44. The AEDI is also revealing links between childhood vulnerability and later outcomes. This research indicates that the AEDI progress measure (developmentally vulnerable on one or more domains) appears to be the strongest summary indicator of later literacy, numeracy and other cognitive and behavioural outcomes of children. It identifies strong correlations between levels of vulnerability and poor NAPLAN performances.<sup>24</sup> This provides supporting evidence for government policies directed at maximising children's development at early points in their lives.

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<sup>23</sup>Janus, & Duku, 2007, *The school entry gap: Socioeconomic, family, and health factors associated with children's school readiness to learn*, *Early Education and Development*, 18(3), 375–403.

<sup>24</sup> Brinkman, Harris, Blackmore, & Janus, 2013, *Associations between the Early Development Instrument at Age 5, and Reading and Numeracy Skills at Ages 8, 10 and 12: a Prospective linked Data Study*, [Child Indicators Research. 2013;online:1-14](http://www.rch.org.au/aedi/schools/). See also 'AEDI's Predictive Value' at <http://www.rch.org.au/aedi/schools/>.

### 3 Government's role in child care and early childhood learning

45. Governments of all levels (Australian, state, territory and local) have a role in addressing child care market failure, primarily through supply and demand funding, regulation and legislation, information provision, and setting national policies. This section focusses primarily on the Australian Government's current role in CCECL.

#### 3.1 Regulation

46. The Australian Government has primary carriage of a range of legislation and regulations (collectively known as Family Assistance Law), including:<sup>25</sup>

- *A New Tax System (Family Assistance) (Administration) Act 1999*
- *A New Tax System (Family Assistance) Act 1999*
- *Child Care Benefit (Eligibility of Child Care Services for Approval and Continued Approval) Determination 2000*
- *Family Assistance Legislation Amendment (Child Care Management System and Other Measures) Act 2007.*

**Key Points:**

- *All levels of government are involved in CCECL regulation.*
- *The National Quality Framework for Early Childhood Education and Care, which commenced 1 January 2012, replaced individual state and territory licencing systems.*

47. The Australian Government invests over \$6 billion each year in CCECL and to protect this national investment (and ensure desired policy outcomes) has put in place a range of legislative provisions.

48. The Family Assistance Law is the basis for family assistance, the payment of CCB and CCR to eligible parents, and the payment of Family Tax Benefit. Family Assistance Law also sets out the service and service provider approval and compliance obligations a service must meet for continued approval.

49. State and territory governments have primary responsibility for the regulation and approval of child care services and providers and the provision of preschool programmes under the NQF, which sets national standards including for educators' qualifications and staff to child ratios.

50. Local governments have a statutory role as a land use planner, including issuing development consents and construction certificates and strategic land use planning. A number of local governments also provide child care and early learning services to their communities.

51. These governance, regulation and funding arrangements across the country have increased the levels of complexity and inconsistency.

52. In 2009, the Council of Australian Governments (COAG) agreed to establish a jointly-governed unified NQF for most centre based child care and preschool services, replacing existing separate licensing and quality assurance processes. One aim of this reform was to reduce regulatory overlap between levels of government, streamline approval processes, improve consistency of approaches

<sup>25</sup> The full list is at <http://education.gov.au/family-assistance-law>

in compliance and provide more certainty to the child care sector, business and investors.

53. The NQF represents a major reform of child care and early learning services aimed at improving quality across the sector. The NQF was established through:

- the Education and Care Services National Law and the Education and Care Service National Regulations
- the National Quality Standard for Early Childhood Education and Care and School Age Care (National Quality Standard)
- a national quality rating and assessment process
- streamlined regulatory arrangements
- a national body – the Australian Children's Education and Care Quality Authority (ACECQA) - jointly governed by the Australian Government and state and territory governments.

54. The NQF commenced on 1 January 2012, and is being progressively implemented. While the Education and Care Services National Law defines the children's services covered, the Education and Care Services National Regulations limit coverage at this time to LDC centres, FDC services, preschools and OSHC services. Under the NQF, these services are assessed and rated against the National Quality Standard, and expected to undertake continuous quality improvement. Since the introduction of the NQF, a number of child care service providers have raised concerns that regulatory burden has not reduced.<sup>26</sup>

55. The Australian Government also has obligations under relevant international conventions including the Convention on the Rights of the Child and the Convention on the Rights of Persons with Disabilities in relation to education and early learning.

### 3.2 Funding

56. Total Australian Government outlays on CCECL services and fees subsidies have increased from \$1.6 billion in 2003-04 to \$6.5 billion in the current financial year (see Figure 2). The forward estimates anticipate this growth continuing, reaching \$7.6 billion in 2016-17. \$28 billion is expected to be spent on CCECL over the next four financial years.

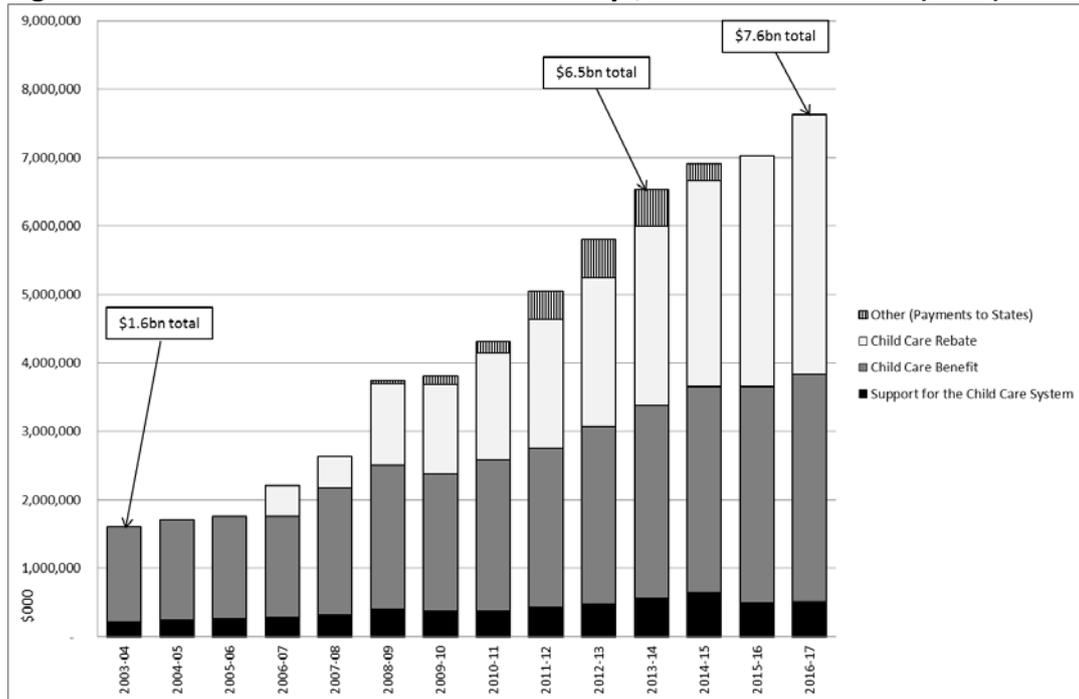
**Key Points:**

- *The Australian Government provides both demand-side and supply-side CCECL funding.*

57. While supply-side funding has remained relatively stable, and while there has been some additional spending through payments to the states, the strongest growth has been in the two special appropriations for CCB and CCR, which are aimed at supporting parents with the cost of child care. These subsidies are 'demand-driven', which means they respond to demand from families for approved child care. Together they constitute around 90 per cent of the Australian Government's outlays on CCECL. Between 2003-04 and 2016-17, CCB and CCR expenditure will have grown from \$1.4 billion to \$7.1 billion.

<sup>26</sup> ACECQA 2012, *A Report on the National Quality Framework and Regulatory Burden*.

**Figure 2: Australian Government CCECL outlays, 2003-04 to 2016-17 (\$000)**



Source: Department of Education

### ***Demand-side funding***

58. CCB is an income-tested payment targeted towards low to middle income families and can be received as a lump sum payment or as reduced child care fees. Different loadings are applied to the standard CCB rate depending on the circumstances of the family, such as the number of children in the family and the type of care they use.

59. All eligible families can receive CCB for up to 24 hours per child per week. To receive more than 24 hours CCB in a week, parents must be undertaking more than 15 hours per week (or 30 hours in a fortnight), of work, training or study, or have an exemption. Further information on the different types of CCB is in Appendix 1.

60. CCR is available regardless of income, so families may be eligible to receive this payment where the family income is too high to receive CCB. CCR pays up to 50 per cent of a family's out-of-pocket child care costs after any CCB is deducted, up to a maximum of \$7,500 per child per annum. Parents have to participate in work related commitments at some time during a week or have an exemption to receive CCR. There is no requirement for a minimum number of hours of care.

61. Families on higher incomes tend to receive relatively more CCR as they are eligible for less income-tested CCB. Parents can choose to receive this on a fortnightly, quarterly or annual basis, or have it paid direct to services on their behalf as a fee reduction.

### ***Supply-side funding***

62. In situations of market failure, where barriers or distortions hinder the market's ability to meet and satisfy a demand or identified need, successive Australian Governments have established a range of 'supply-side' (service

provider-focused) support and funding programmes that aim to assist the market to respond to demand for CCECL services.

63. In principle these initiatives are geared towards assisting service providers to address sustainability and viability within the following four broad areas:

- **Establishment barriers** such as those associated with 'up-front' capital or infrastructure costs or delays associated with licensing, local government planning regulations and access to land.
- **Capacity and capability barriers** such as the cost/profitability ratios and/or required skills and expertise to include children with additional needs including children with disability, Indigenous children, children from non-English speaking backgrounds and from humanitarian or refugee backgrounds.
- **Sustainability barriers** such as localised '*shallow*' markets (where the market is incapable of swift adaptation to changing economic or demographic drivers resulting in pricing pressures and a mismatch between supply and demand) or '*thin*' markets (where there are simply insufficient families with children needing to access care).
- **Information barriers** such as where parents and families are unable to access enough information on services to enable them to make informed decisions.

64. More information on the programmes the Australian Government has in place to address these barriers is provided in Appendix 1.

### 3.3 Providing information for parents and providers

65. The Australian Government's MyChild website ([mychild.gov.au](http://mychild.gov.au)) administered by the Department of Education, provides a single, national, searchable database on child care and preschool services, including fees, vacancies, NQF quality ratings, and hours of operation.

**Key Points:**

- *The Government operates the MyChild website and the Child Care Access Hotline.*

Visits have increased from around 100,000 hits in 2009 to over 1 million hits in 2013.

66. In addition, the department also provides a number of other services and resources to support child care service providers:

- **Child Care Access Hotline** – a free telephone service providing information to parents including types and location of care; possible vacancies; fee information where provided by approved child care services; how to choose a quality child care service; and Australian Government support. Around 30,000 calls are made to the Hotline each year.
- **Child Care Handbook** – an annual online publication that details policy and legislative requirements, information on government programmes, and guides to child care assistance. The full range of information is at [education.gov.au/child-care-information-service-providers](http://education.gov.au/child-care-information-service-providers).

67. As the agency responsible for payment to families, including the assessment and payment of child care assistance to families, DHS also provides

policy and programme information to parents and educators. It does this through its Australia-wide network, on its website.

68. DHS has also more recently introduced a mobile phone application or 'app', which allows families to apply for, change, and review their personal information and applicable child care payments.

### 3.4 Setting national policies and standards

69. For many CCECL policy matters, the Australian Government works collaboratively with states and territories to develop national policies. Historically, child care has been the responsibility of the Commonwealth while early childhood education has been the responsibility of states and territories.

**Key Points:**

- *The Australian Government works with state and territory governments to deliver nationally-consistent policies, regulations and programmes.*

70. Increasingly, however, these boundaries are becoming less defined as services – responding to consumer demand and government policy – are integrating education and care.

71. In these cases, policies are commonly developed through COAG or the ministerial Standing Council on School Education and Early Childhood.

72. The Australian Government has a role in providing national leadership and setting national policies. The Government sets national policies and procedures through the Department of Education, especially relating to the Australian Government's child care fees subsidies and related support programmes.

## 4 Key issues for creating a sustainable CCECL system

73. In the last decade, there have been many developments that have improved the capacity of the CCECL system to better respond to families' workforce participation needs and to deliver better early learning and development for children.

74. However, challenges to the sector such as the changing costs of delivery and localised, uneven service provision, mean that some children and families still miss out on accessing quality, affordable CCECL, while Australian Government expenditure, and therefore the cost to taxpayers, is growing rapidly.

75. The following highlights a number of central issues facing the CCECL sector.

### 4.1 Under or over supply of child care in some communities

76. Despite the significant growth in the number of children using approved care over the last decade and the corresponding growth in the number of services, evidence suggests that, broadly speaking, the market has responded reasonably well to demand.<sup>27,28</sup>

77. However, families have told the department that finding child care can be particularly difficult in some areas, such as inner-city suburbs and mining towns,<sup>29</sup> where the cost of entry and operation for service providers outweighs the communities' and parents' capacity to pay, even after subsidies and other assistance from governments.

78. The supply of child care can be impeded by barriers to entry including: access to capital<sup>30</sup> (particularly for not for profit organisations<sup>31</sup>), regulatory burdens arising through development and building approval processes, constraints due to zoning restrictions, and lack of available land.<sup>32</sup> These barriers to entry mean that the supply of child care is likely to take a period of time to respond to increases, or decreases in demand (potentially leading to an over or under supply).<sup>33</sup>

79. In inner-cities, land costs and land availability are significant constraints on the supply of centre-based care.<sup>34</sup> This is particularly the case in areas where available land has a greater value as high density housing or office space rather than for community uses such as child care.

80. In regional areas where rents are typically lower and land more readily available, the main constraint on supply is the availability of educators.

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<sup>27</sup> Davidoff, I. 2007, 'Evidence on the child care market', *Economic Roundup Summer 2007*, Department of Treasury, Canberra.

<sup>28</sup> Department of Education, unpublished research.

<sup>29</sup> Department of Education, unpublished research.

<sup>30</sup> IBISWorld 2013, *Child Care Services in Australia*, September 2013, p22.

<sup>31</sup> Lyons et al, 2007, 'Capital access of non-profit organisations', *Agenda*, 14:2, pages 99-110.

<sup>32</sup> Department of Education, unpublished research.

<sup>33</sup> Department of Education. *Child care and public policy in Australia: a review of selected issues*, unpublished, 2008.

<sup>34</sup> See for example, SSROC 2005, *Discussion paper on planning requirements for child care centres*.

81. Families are increasingly seeking child care arrangements that meet their specific and diverse needs. Services consequently find it more difficult to respond and provide the care that families prefer. Increasingly, parents no longer work '9 to 5' and need more flexibility as to the location, timing and form of care. This can result in some families perceiving a lack of supply in a situation where there is a child care service available, but not in the form and/or at the times they need it.

82. The effect of these issues on supply can reduce competition in local areas where there is a single dominant provider, or result in insufficient supply in areas where there is little return on investment (such as thin markets).

83. However, governments commonly struggle to address these market failures in an effective and efficient manner. In particular, government supply-side intervention risks generating adverse consequences, such as:

- supporting uneconomic services where the costs to government outweigh the benefits to the community
- encouraging less efficient business decisions by child care market operators
- creating an ongoing expectation that government will be a funder of last resort.

#### **4.2 Some families lack sufficient information to make informed decisions**

84. A lack of the right information can lead to a number of problems for parents purchasing child care services. They may, for example, avoid 'shopping around' due to a lack of time or sources of reliable, comparable information about services. As a result they may choose services that are not the best for themselves or their child, or pay higher than competitive prices.

85. Additionally, in most cases, parents are not able to determine which government subsidies to apply for or what level of support is available. This impacts part of the decision-making process for parents when considering price and quality issues.

86. Anecdotal evidence provided to the department suggests that some services may be reticent about providing information to families regarding the inclusion of children with additional needs due to uncertainty or lack of experience about how to include these children or due to concern there may be additional associated costs.<sup>35</sup>

87. In the CCECL sector, problems with adequate market information can occur because:<sup>36</sup>

- the nature of the 'product' is not easily comparable (e.g. an FDC service provides a different product than a LDC service)
- putting a value on long-term benefits to the child can be difficult
- parents have difficulty assessing many aspects of quality and tend to overestimate quality<sup>37</sup>

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<sup>35</sup> Based on information provided to the Department of Education as part of its management of the Inclusion and Professional Support Program.

<sup>36</sup> *Regulation Impact Statement for Early Childhood Education and Care Quality Reforms*, COAG Decision RIS, December 2009.

- specific information relating to service offerings for children with additional needs or from cultural and linguistically diverse backgrounds may not be available
- some services can have complicated and unclear information on fees and vacancies
- fees charged are not necessarily directly linked to the level or nature of the service provided.

88. Both government and non-government organisations have begun to address these issues. For example, the Australian Government's MyChild website has made information more accessible and the NQF ratings have made services more comparable (in terms of quality).

89. However, families have told the department that their main source of identifying potential child care services is word of mouth,<sup>38</sup> while families still face some difficulties in accessing sufficient and comparable information. While MyChild provides detailed data on services and vacancies, there are opportunities to enhance the website to better meet parent needs.

### 4.3 Duplication of regulation between levels of government

90. The OECD report *Starting Strong II* supports the need for government intervention in the sector. The report concluded that '...governments need to fund, supervise and regulate private providers, if they wish to maintain quality for all young children, including children with special needs and/or additional learning needs'.<sup>39</sup>

91. The community expect that governments should be willing and able to act when there are problems with the supply of child care, and it is the role of governments to take responsibility in regulating for the health, safety and welfare of children and families. Government regulation should be proportionate and appropriate to the extent and type of market failure, balance the needs of children, parents, service operators and owners, and the community generally, and reflect government policy objectives.<sup>40</sup>

92. Imposing standards on the CCECL sector can produce a higher quality of service delivery than in an unregulated environment.<sup>41</sup> Excessive or poor regulation imposes administrative costs on service providers and their staff and can distort the business decisions of child care services and impede ease of access for families.

93. In a system where parents' choices are important, governments have a special responsibility to get the right balance of regulation between a level that

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<sup>37</sup> Mocan, N. 2007, Can consumers detect lemons? An empirical analysis of information asymmetry in the market for child care. *Journal of Population Economics*, 20(4):743-780.

<sup>38</sup> Department of Education, unpublished information.

<sup>39</sup> Organisation for Economic Co-operation and Development (2006), *Starting Strong II Early Childhood Education and Care*, OECD Publishing: Paris.

<sup>40</sup> *Regulation Impact Statement for Early Childhood Education and Care Quality Reforms*, COAG Decision RIS, December 2009.

<sup>41</sup> Friendly, M., Doherty, G. and Beach, J. (2006), *Quality by Design: What Do We Know about Quality in Early Learning and Childcare, and What Do We Think? A Literature Review*. Toronto: Childcare Resource and Research Unit, University of Toronto.

provides certainty to families that services will provide safe, nurturing environments and one that reduces unnecessary red tape and paperwork for the service.

94. The CCECL sector has a history of increasingly complex government involvement, as supplier (e.g. state government run preschools), regulator, and funder (both on the supply and demand sides), with all three levels of government playing a role.

95. This level of interaction between three levels of government has led to a tendency for some overlap or duplication between the levels and regulatory burdens for providers, who often have to respond to requirements from all three levels and across local and state/territory government boundaries.

96. Opportunities to reduce duplication of regulation through better coordination include:

- better consultation between government and service providers
- reduce the burden on services reporting the same or similar information to different levels of government (including the need and capacity to share information better)
- address the complexities of a multiple tier system – some services are regulated under the NQF, some are Australian Government approved but not NQF, some are state approved but not NQF, and some are not approved
- integrate and/or further enhance information systems (between all levels of government, services providers and, where possible and practicable, families).

#### **4.4 Some parents working outside traditional hours can find child care inflexible**

97. Demand for greater flexibility in child care is more acute for parents working non-traditional hours, such as emergency service personnel, shift workers or casual workers in the retail or hospitality sectors.

98. Early consultations undertaken by the department as part of the development of the Child Care Flexibility Trials indicate that for the emergency services sector (police officers, nurses and ambulance officers), lack of flexible child care is a significant issue affecting workforce participation and family stress levels. Issues raised included:

- mothers not returning to work, or returning part-time to a different role with less potential for promotion
- parents needing to tag-team with resultant stress levels on parents and potentially children
- families relying on relatives and/or a complex set of formal and informal child care arrangements
- the need to pay for sessions of care that are not used and/or be unable to access care for last minute shift changes.

99. Greater flexibility can only be delivered within the context of service viability. While from a parent's point of view, charging only for sessions used or holding a place to accommodate last minute shift changes would deliver more

flexible child care, the ability of services to respond in this way is limited by its financial impact. On the other hand, services must design charging practices that enable them to maintain a viable business.

100. There are also potentially other factors that could reduce families' access to more flexible care. These include:

- employers' requirements<sup>42</sup>
- concerns in relation to quality or safety of home based care<sup>43</sup>
- complexities in staff rostering and/or lack of availability of child care staff to work non-traditional hours
- licensing requirements may hamper a services' ability to expand or establish a targeted service, for example for children under two years.

#### **4.5 Some families find the cost of child care an issue**

101. Without financial assistance, many families would find the cost of child care to be prohibitive. The Australian Government seeks to address this through a range of subsidies and programmes. Despite this assistance, some families find the affordability of child care a challenge.

102. The two main forms of child care fees assistance available from the Australian Government are:

- CCR, which is available regardless of family income and is focused on supporting workforce participation, with the rate set relative to out of pocket costs
- CCB, which is targeted towards lower income earners, through means testing, and has a range of rates depending on family income and circumstances.

103. Appendix 2 provides additional information on child care subsidies, including total outlays, out of pocket costs as a proportion of disposable income and child care fees and affordability.

104. In terms of impact on affordability, CCB combined with CCR assists lower income earners with the cost of child care. CCR is important to middle to higher income earners, as these families receive relatively less CCB (due to their higher incomes).

105. There have been some important changes to Australian Government child care fees assistance. CCR in particular has undergone a number of key changes in recent years. Until 2006-07, families claimed their out-of-pocket costs at the end of the financial year as a lump sum payment against their income tax liability, when the rebate was moved to the transfer payment system as an annual payment. From July 2008, CCR was lifted from 30 per cent of out-of-pocket costs to 50 per cent, and the annual limit was increased to \$7,500 per child. Payments

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<sup>42</sup> Early feedback from FDC services and parents indicates that this is a particular issue for emergency service personnel who are seeking to extend their care to accommodate last minute shift changes.

<sup>43</sup> Feedback from police representatives during recent flexibility trials indicates a perception that there are issues of quality and safety in relation to home based care and these are of particular concern to police officers.

are now available annually, quarterly or fortnightly (either to families or direct to services).

106. The annual CCR limit has been set at the 2008-09 level of \$7,500 per child and the limit has not been indexed since then. There is legislation currently before parliament to maintain the limit at \$7,500 for a further three years beyond June 2014.

107. While average national child care fees have grown at a steady rate, there are large variations between states and territories as well as metropolitan, regional and remote areas.<sup>44</sup> This results from the variable costs of operating a service. For example, infrastructure costs can be high in metropolitan areas and remote areas.

108. Set up and running costs can also impact on the availability of places, as services may find it too expensive to expand or set up, even in areas of high demand. Some services have indicated that regulatory requirements such as staff qualifications and ratios also contribute to operating costs. The main drivers of fee costs in the child care sector are wages, which make up between 60 and 80 per cent of a service's costs.

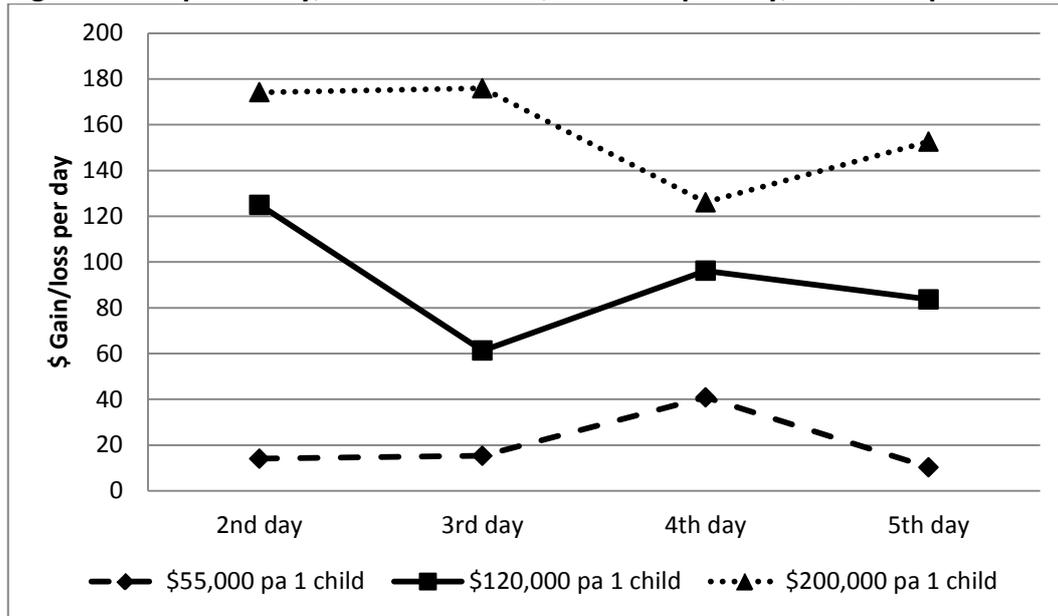
109. The interaction between child care fee assistance, other family subsidies, taxable income and income support payments is complex, varying between different household circumstances. The gains or losses from working an additional day can affect families' disposable incomes differently, depending on their income levels, the number of children in approved early learning and care services and the fees charged. The following two Figures provide scenarios of how different families' incomes and circumstances can have significant effects on the financial impacts of the secondary income earner in a couple family working an extra day:

- Figure 3 shows the average amount gained for an additional day of work for the secondary income earner in a couple family, with one child in LDC for 50 hours per week, with an estimated fee of \$370 per week
- Figure 4 shows the average amount gained or lost for an additional day of work for the secondary income earner in a couple family, with two children in LDC for 50 hours per week, with an estimated fee of \$370 per week.

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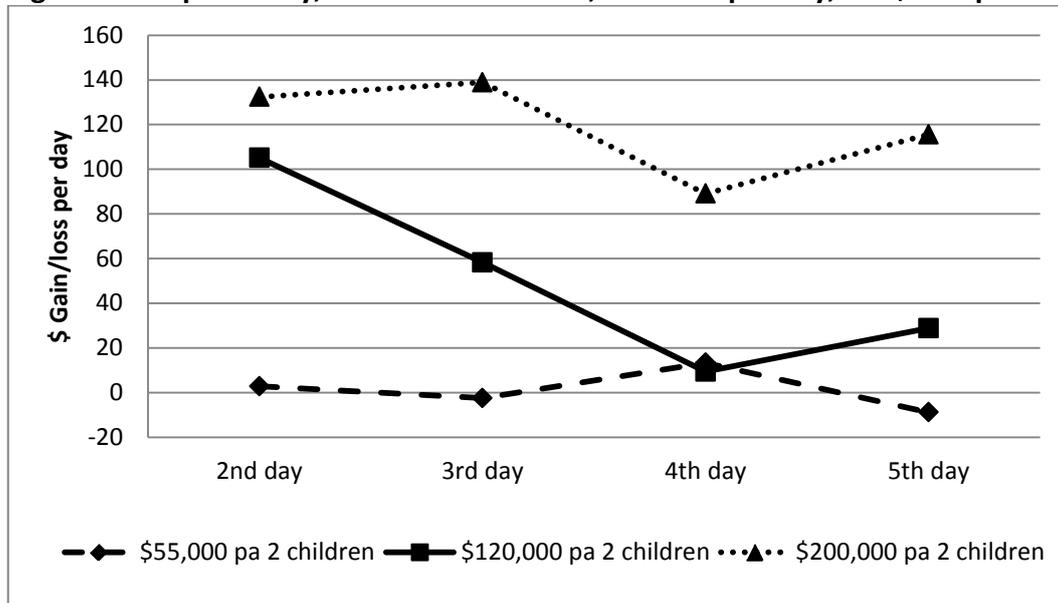
<sup>44</sup> See *Child Care in Australia August 2013*, Department of Education.

**Figure 3: Couple family, one child in LDC, 10 hours per day, fee \$7.40 per hour**



Source: Department of Education and Department of Employment estimates  
Assumptions used to estimate gains and losses are: Tax-transfer parameters as on March 2013; child aged less than 5 years; no Rent Assistance; no private health insurance; average hourly LDC fee from 2013 March quarter - \$7.40, 50 hours per week; families have not reached the CCR limit.  
Family income levels 1st/2nd income earner split: \$55,000 pa (\$30,000/\$25,000); \$120,000 pa (\$70,000/\$50,000); \$200,000 pa (\$120,000/\$80,000).

**Figure 4: Couple family, two children in LDC, 10 hours per day, fee \$7.40 per hour**



Source: Department of Education and Department of Employment estimates  
Assumptions used to estimate gains and losses are: Tax-transfer parameters as on March 2013; children aged less than 5 years; no Rent Assistance; no private health insurance; average hourly LDC fee from 2013 March quarter - \$7.40, 50 hours per week; families have not reached the CCR limit.  
Family income levels 1st/2nd income earner split: \$55,000 pa (\$30,000/\$25,000); \$120,000 pa (\$70,000/\$50,000); \$200,000 pa (\$120,000/\$80,000).

110. Figures 3 and 4 relate to dual income families. Estimates using similar parameters and assumptions for single families show much the same pattern, with financial gains reducing beyond the second and third day of additional work.

#### **4.6 Australian Government expenditure should be sustainable**

111. As noted in Section 3.2 above, child care fee subsidies constitute one of the fastest growing major Australian Government outlays, driven principally by increased numbers of children in care, increased hours in care and rises in fees. CCR and CCB constitute around 90 per cent of total CCECL outlays, and both have grown rapidly in recent years, and are expected to continue to do so in the forward estimates.

112. The 'mix' between CCR and CCB is also changing, so that by 2015-16 it is anticipated that CCR will overtake CCB as the Australian Government's largest single child care assistance programme (see Appendix 2 for more details). This trend raises questions about the current structure of payments.

113. It is likely that upward pressures on fees, including wage growth and demographic changes, will continue. This, combined with the fact that CCR rates are set as a proportion of child care fees paid, will mean that Australian Government outlays on child care fees assistance are likely to nearly triple over the next decade.

114. There are also complex interactions between 'demand-side' funding such as CCB and CCR, and 'supply-side' funding provided direct to services, to assist with, for example, establishment costs, special needs children and families, and the cost of operating in remote areas. It is also worth noting that 'supply-side' and targeted programme funding (mainly under the Child Care Services Support Programme) has remained relatively constant over recent years – at the same time that child care fees assistance outlays have grown substantially.

#### **4.7 Efficiency and effectiveness of government programmes**

115. There are opportunities to improve the efficiency and effectiveness of Australian Government supply and demand side CCECL programmes.

116. In practice, many of the supply-side programmes were created to address specific policy issues and have tended to become increasingly complex for government to administer and for providers to navigate as those specific issues have evolved.

117. Consideration needs to be given as to whether these programmes are still meeting their original objectives and have maintained currency with the recent trends in the CCECL market (such as the trend towards integrated service provision).

118. In doing so, there may be opportunities to build an evidence base to construct a more systematic approach to the provision of such programmes, both in terms of universal standards and practices (such as the NQF) and more targeted or tailored interventions (such as the Home Interaction Program for Parents and Youngsters).

119. There are also opportunities to address the current structure of child care demand-side payments. For example:

- improve alignment of child care payments with policy objectives

- there are many different loadings for CCB (i.e. part-time, multiple children, FDC and IHC loadings) – this, together with the income tapering means that it is hard for families to estimate their entitlement
- CCB and CCR eligibility requirements and payment options could be better aligned
- streamlined access to higher-level subsidies
- improve compliance activities relating to child care payments.

## Appendices

### Appendix 1: Australian government roles, policies and programmes

#### *Programme 1.1 – Support for the Child Care System*

Programme 1.1 is focused upon supporting the child care system with payments predominantly targeting the supply-side of the child care market (the service providers). It is made up of several programmes that provide payments directly to services and several that allocate funding to enable the department to carry out work to support the sector. In summary, the various elements are discussed in detail below.

#### **A. Child Care Services Support Programme (CCSSP)**

Child care services are categorised as either 'Mainstream' or 'Non-Mainstream'. Mainstream services are those that are approved to administer CCB on behalf of families. 'Mainstream' services account for around 98 per cent of child care services.

'Non-Mainstream' are those services that do not meet these requirements, but receive funding from the department under the Budget Based Funding programme in order to operate services where 'Mainstream' ones would not be viable, or where historically there have been unique child care needs. These services are generally not CCB approved.

#### Community Support Programme (CSP)

The objective of the CSP is to *'assist child care providers to establish or maintain viable services in parts of the country where they might not otherwise be viable or able to meet the unique requirements of the community, such as in disadvantaged or regional and remote areas'*. Expenditure is detailed at Table A1.1 and Figures A1.1 and A1.2.

#### Programme Operation

All CSP funding is delivered through funding agreements (grants), with durations of between one and three years depending on the type of care and/or the type of support being provided.

There are a number of different payments and methods that the CSP uses to deliver support to child care service providers. Eligibility criteria differ for the different care types and focus primarily on factors such as a service's location determined by the Accessibility/Remoteness Index of Australia (ARIA+), level of socio-economic disadvantage and how much the service is utilised by the community.

- *Set Up Assistance*: targeting FDC, IHC and OSHC, this payment provides a one-off payment to help a service provider establish a service. The amount is dependent upon the care type and what services the provider already has operating at a particular location.

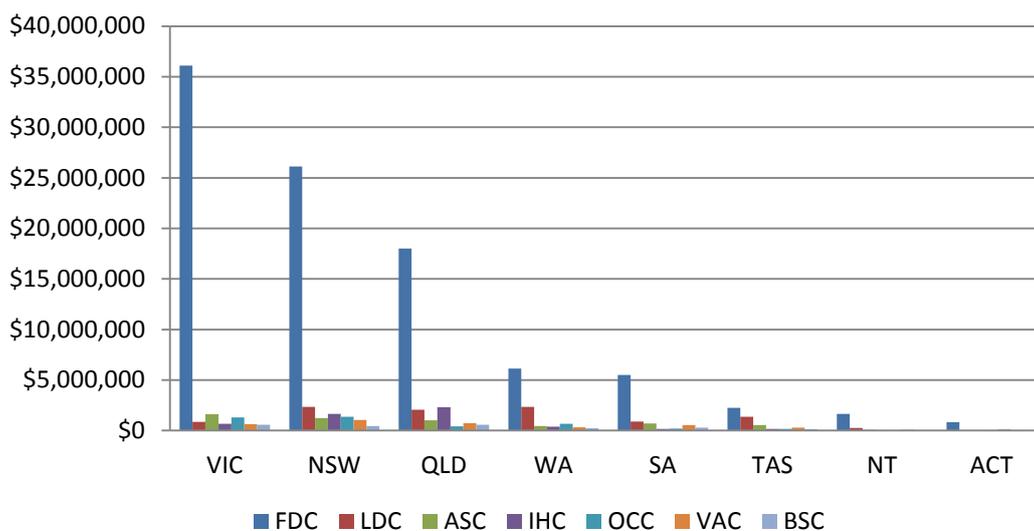
- *Sustainability Assistance*: targeting LDC and OSHC, this payment provides a contribution to the day to day costs of operating a child care service. The amount and frequency of payments are governed by eligibility criteria that a service must meet in order to trigger payments.
- *Capital Funding (Exceptional Circumstances)*: this payment provides up to \$500,000 to support the creation of new LDC services in regional and remote communities where a clear demand has been identified.
- *Operational Support*: targeting FDC, IHC and OCC, this payment provides a contribution to the day to day costs of operating a child care service. Services receive this payment by virtue of being an approved service and are not affected by any other eligibility criteria.
- *Regional Travel Assistance Grant*: targeting FDC and IHC, this payment provides a contribution to the travel costs incurred by coordination staff in supporting a network of educators.

**Table A1.1. CSP Expenditure by service type, 2012-13**

CSP Mainstream Expenditure 2012-13	\$m	% of children(a)
Family Day Care	97.6	13.5(b)
Outside School Hours Care ( <i>Before School (\$2.3m), After School (\$5.7m) and Vacation care (\$3.6m)</i> )	11.5	31.6
Long Day Care	9.7	57.4
In Home Care	6.2	(b)
Occasional Child Care	4.2	0.7
<b>Totals</b> (may not total due to rounding)	<b>129.2</b>	<b>(c)</b>

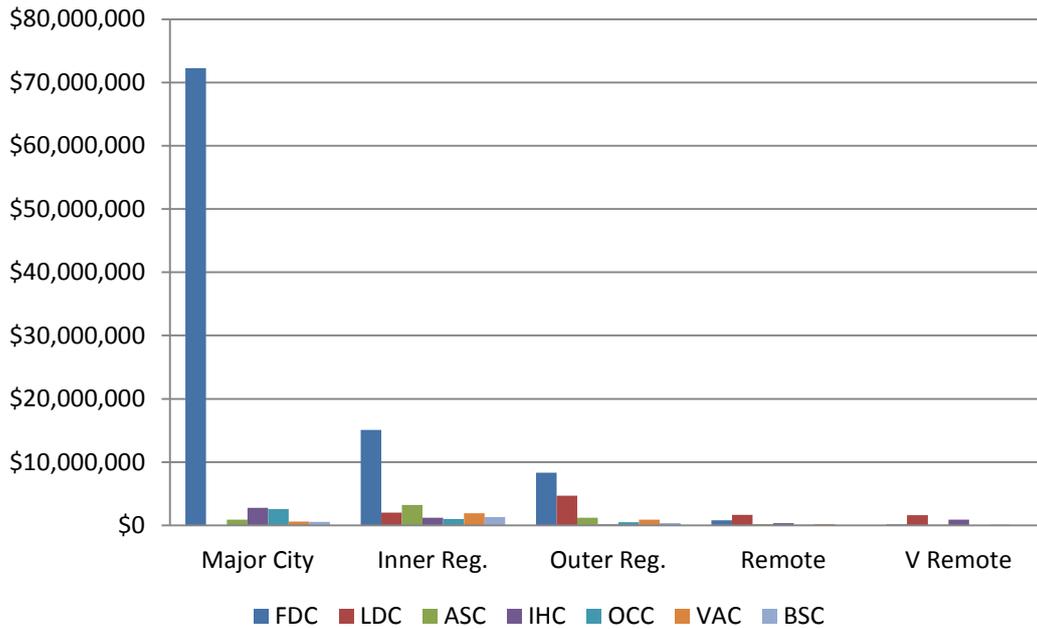
Source: Department of Education, unpublished data. (a) As at June quarter 2013. (b) FDC includes IHC. (c) Total does not equal 100% because children may use more than one service type in a particular quarter.

**Figure A1.1. CSP Expenditure by state, 2012-13**



Source: Department of Education, unpublished data.

**Figure A1.2. CSP Expenditure by remoteness classification, 2012-13**



Source: Department of Education, unpublished data.

### Budget Based Funding (BBF) Programme

The BBF programme shares the same objective as the CSP, but with an emphasis upon supporting services predominantly located in rural, remote and Indigenous communities. Generally, the focus is on areas where the market may not adequately support the viable operation of services, or where there has historically been an additional need for culturally competent services for Aboriginal and Torres Strait Islander children and families.

#### Programme Operation

Services funded under the BBF Programme are known as Budget Based Funded services or 'Non Mainstream' services and are not generally approved to administer CCB on behalf of families.

BBF provides a contribution to the operational costs of approximately 340 early education, child care and school age care services in approved locations. A range of service types are funded including before and after school care, Indigenous playgroups, crèches, mobile services and Multifunctional Aboriginal Children's Services (MACS).

The annual allocation for the BBF Programme is capped and the programme is closed to applications for the establishment of additional services in new locations. BBF funding is delivered through a funding agreement (grant) of one year.

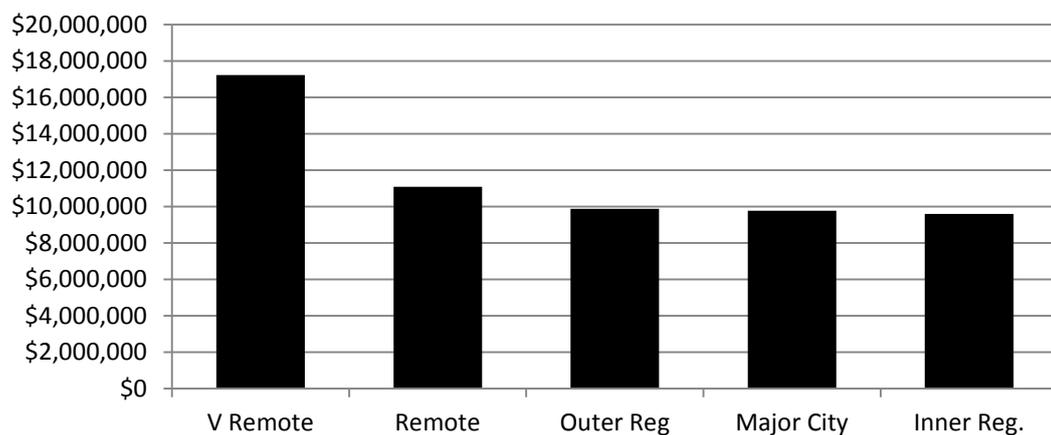
For the 2012-13 financial year, the Government spent around \$78.8 million to support the BBF Programme. Noting that some organisations deliver BBF services in a number of states but operate from a single jurisdiction, an indicative breakdown by state and territory is shown in Figure A1.3, and by ARIA in Figure A1.4.

**Figure A1.3. BBF Expenditure by state, 2012-13<sup>^</sup>**



Source: Department of Education, unpublished data.

**Figure A1.4. BBF Expenditure by remoteness classification, 2012-13<sup>^</sup>**



Source: Department of Education, unpublished data. <sup>^</sup>Note that these charts do not include expenditure for the BBF Improved Standards initiative (BBF Quality Measure) and the Indigenous Traineeship programme.

### BBF Quality Measure

In recognition of the differences in quality that have historically existed between BBF services and those approved to administer CCB, since 2010-11 there has been additional support provided through the BBF Quality Measure for centre-based BBF services to move towards the National Quality Standard.

The Quality Measure is supporting BBF services to improve against three key areas of the National Quality Standard:

- improving the quality of their facilities
- improving the qualifications of staff
- strengthening governance and administrative capacity.

From 2010-11 to 2012-13 the Government spent around \$36 million on this measure.

## Inclusion and Professional Support Program (IPSP)

The objective of the Inclusion and Professional Support Program (IPSP) is to *“promote and maintain high quality, inclusive education and care, for all children, including those with ongoing high support needs, in eligible early childhood education and care settings. This is achieved by increasing the knowledge and skills of educators, and the capacity of education and care services, through providing professional development, advice and access to additional resources as well as inclusion support”*.

### Programme Operation

As with the CSP, the IPSP contains a range of support payments to increase the quality of the child care sector. This is achieved by funding organisations such as Inclusion Support Agencies (ISAs), Professional Support Co-ordinators (PSCs) and Indigenous Professional Support Units (IPSUs) to support child care and early learning services. Support and funding is also directly available to services in the form of practical support, subsidies, and professional development.

Broadly speaking, the support, professional development and subsidies are available to eligible CCB approved services and those receiving funding under the BBF Programme. There are additional eligibility criteria to access the different types of support available under the IPSP. Further information on these can be found in the comprehensive IPSP Guidelines available online at [education.gov.au](http://education.gov.au).

To achieve its objective, the IPSP is divided into two streams: *Inclusion Support* and *Professional Development and Support*:

- Inclusion Support is available to increase access to quality care for families by assisting services to build capacity to include children with additional needs including children with disability. ISAs may provide onsite practical inclusion activities, assisting services to link with relevant community organisations and to work in partnership with families, and to access ISS where this is required.

### Inclusion Support Subsidy (ISS):

- In centre-based services ISS is a contribution towards the costs associated with engaging an additional educator to include a child or children with ongoing high support needs alongside their typically developing peers.
- In home-based services ISS is as an additional/capacity payment to FDC educators and IHC educators respectively in recognition of the impact of including a child with ongoing high support needs. It can also be used to engage additional staff to accompany an FDC or IHC educator caring for a child or children with ongoing high support needs on out-of-home excursions or other special activities.

### National Inclusion Support Subsidy Provider (NISSP):

- KU Children's Services is the organisation funded currently by the department to be the National Inclusion Support Subsidy Provider (NISSP). The NISSP is responsible for the assessment and approval of applications for ISS.

### Inclusion Support Agencies (ISAs):

- Nationally there are 29 ISAs funded to support services and educators in 67 regions to:
  - provide practical support to help build a service's capacity in providing a quality, inclusive environment for children with additional needs, including children with disability
  - support services to identify goals and actions to increase their capacity to deliver quality inclusive care for all children
  - access and apply for other support such as ISS, Flexible Support Funding, Specialist Equipment and Bicultural Support.

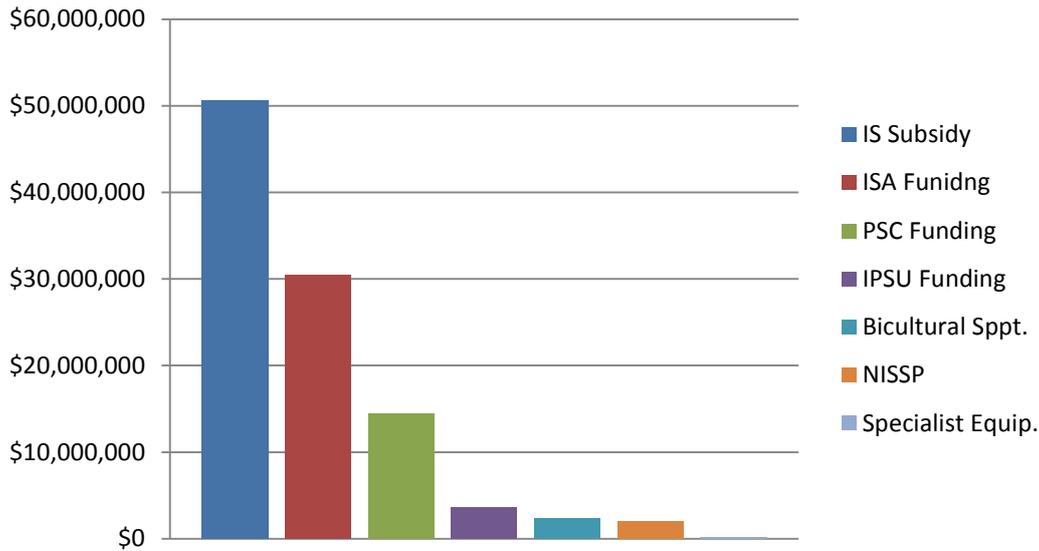
Professional Development and Support is focused on providing funding to organisations to assist child care services to raise the quality of the child care and early learning they provide. This includes:

- Professional Support Coordinators (PSCs):
  - There are eight PSC organisations.
  - Deliver and facilitate professional development and support to eligible services to assist them to improve their effectiveness, meet the requirements of the NQF, and implement approved learning frameworks including the Early Years Learning Framework.
  - Manage the provision of Bicultural Support and associated resources to assist with the enrolment and inclusion of children from culturally and linguistically diverse and/or Indigenous backgrounds.
  - Manage access to the loan of specialist equipment to assist the inclusion of a child with ongoing high support needs.
- Indigenous Professional Support Units (IPSUs):
  - There are eight IPSUs, two in the NT, a single provider for NSW/ACT, and one provider in each other jurisdiction.
  - Provide similar support as offered by PSCs to assist services in receipt of Budget Based Funding and also provide advice to other IPSP Providers on culturally appropriate support and resources to assist mainstream services to include and support Indigenous children and educators.
  - Funding to IPSP Providers is delivered through funding agreements (grants) which operate from 1 January 2013 to 30 June 2016. FSF and ISS is delivered through conditions of funding agreements with child care and early learning services and are of variable duration based on the relevant criteria.
  - The level of funding and payment rates are subject to annual indexation.

Recent Expenditure:

In 2012-13, the Government spent around \$104 million on the IPSP. Details at Figure A1.5.

**Figure A1.5. IPSP Expenditure by activity, 2012-13**



Source: Department of Education, unpublished data.

## **B. Child Care Quality/Programme Support**

This sub-programme provides funding towards a number of initiatives to increase the information available to families to inform their child care decisions as well as contribute to the body of evidence and research underpinning the Government's understanding of the sector.

### Australian Early Development Index (AEDI)

The AEDI is a population based measure of young children's development. Parents, teachers and school communities can benefit from the AEDI in measuring young children's health and wellbeing.

Teachers complete a checklist for children in their first year of full-time school across each of these areas: *physical health & wellbeing, social competence, emotional maturity, language & cognitive skills and communication skills & general knowledge.*

Governments and communities can use AEDI data to understand what policies and practices are working well and what could be improved to better support children and their families. Information is collected every three years.

The first two national AEDI data collections took place in 2009 and 2012 with subsequent collections planned every three years. The 2012 AEDI data collection results were released in April 2013 and are available from the department's website at [education.gov.au](http://education.gov.au). Preparations are now underway for the 2015 data collection.

### Home Interaction Program for Parents and Youngsters (HIPPY)

HIPPY is a home-based parenting and early childhood programme that helps parents and educators to be their child's first teacher to help prepare their child for school. Parents and their children enrol in the programme in the year before the child commences formal school and participate for two years.

The programme activities are designed to be integrated into the daily life of the family. The first year of the programme focuses on literacy and numeracy skills. The second year extends these activities and provides parents with additional information about children's learning and development.

Each programme location is staffed by a qualified leader and a team of home tutors, who, in many cases, are usually past or current parents in the programme who live in the community.

More than \$100 million has been committed to HIPPY to support continuing programme delivery and expand the programme to additional locations. In July 2013, an additional 25 Indigenous focussed communities were selected for HIPPY with programme delivery to commence in early 2014. A further 25 Indigenous focussed HIPPY sites will be selected in 2014 and are scheduled to commence delivery in 2015. This will bring the total number of HIPPY sites operating nationally from 2015 to 100.

### **C. Jobs, Education and Training Child Care Fee Assistance (JETCCFA)**

JETCCFA helps eligible income support parents with the cost of approved child care while they are working, studying or training. The programme assists parents to enter or return to the workforce, without the cost of child care being a barrier. JETCCFA meets the net costs of care, after CCB, apart from a \$1 per hour parental co-contribution. Parents can claim 50 per cent of this co-contribution from CCR, reducing the actual out of pocket cost of care to parents to 50 cents per hour.

The number of JETCCFA hours per week is determined by a parent's work, training or study commitments and can be approved for up to 52 weeks in advance for study activities, and up to 26 weeks for work activities. JETCCFA hours of care are approved in multiples of 12 (up to 60), which reflects general service operating hours and sessional charging practices of child care services.

Since 2010-11, demand for JETCCFA has increased, with around 36,000 parents annually assisted by JETCCFA compared with an average of 24,000 in the previous three years. Over 80 per cent of parents receiving JETCCFA are undertaking study activities.

The number of parents and children in receipt of JETCCFA during 2012-13 continued the trend of the previous two financial years to increase throughout the year beyond expected estimated usage. This resulted in increases in JETCCFA funding as more income support families are accessing JETCCFA, particularly while children are below school age.

JETCCFA is demand driven programme with a capped appropriation. Whenever there are changes in related policy areas, such as workforce participation requirements for parents on income support, pressure on this subsidy grows.

In 2012-13 the Government spent around \$108.9 million in JETCCFA funding.

### **D. Professional Development Programme for LDC Services**

In December 2013 the Government announced that it had established a new professional development programme for educators working in LDC. The new programme will assist educators meet the qualification requirements under the

NQF and improve quality outcomes for children. The new programme is due to commence in March/April 2014.

### ***Programme 1.2: Child Care Fee Assistance***

Programme 1.2 is focused upon the provision of funding to families to assist with the costs of child care and accounts for over 90 per cent of the total Australian Government expenditure within the CCECL sector.

Child Care Benefit (CCB) – assists parents with the cost of approved and registered child care. The payment of CCB for approved care varies depending on family income, the number of children in care, the hours of care, and the type of child care used. CCB for registered care is paid at a much lower rate than CCB for approved care, as the latter payment requires the provider to meet various quality and compliance requirements.

Support available under CCB varies with the family's circumstances. By way of example:

- the current approved care CCB rate for a non school-aged child in up to 50 hours of care per week is \$3.99 per hour, or \$199.50 per week
- the current registered care CCB rate for a non school-aged child in up to 50 hours of care per week is \$0.666 per hour, or \$33.30 per week
- payment rates for school-aged children are 85 per cent of the non-school-aged rate.

Further details on CCB rates are available on the DHS website ([humanservices.gov.au](http://humanservices.gov.au)).

Families are entitled to CCB for up to 50 hours of care per child per week if both parents (or one if a sole parent) are undertaking work, training or study for more than 15 hours. CCB is available for up to 24 hours per week if parents are undertaking less than 15 hours (or 30 hours per fortnight) of work, training or study.

CCB maximum rates and income test thresholds are indexed annually in line with the Consumer Price Index (CPI). As child care fees have increased at a greater rate than CPI (between 5 and 8 per cent per annum over the past 7 years), the value of CCB has not kept pace with growth in child care fees. In 2006 there was a one-off 10 per cent increase in the rate of CCB.

Lower income families receive the highest rate of CCB. In addition to the standard CCB, there two additional CCB sub-types aimed at families in specific circumstances:

- **Special Child Care Benefit (SCCB)** – assists where there is a child at risk of serious abuse or neglect, or a family with experiencing short term financial hardship which has substantially reduced their capacity to pay child care fees. Initial claims are limited to three months, and reassessed thereafter.
- **Grandparents Child Care Benefit (GCCB)** – assists grandparents who are the primary carers for their grandchildren and who receive an income support payment. GCCB pays the full cost of child care fees for each child in CCB

approved care for up to 50 hours a week. Grandparents need to meet the CCB eligibility requirements to claim GCCB.

SCCB is demand driven and child care services determine access to the payment for the first 13 weeks. However, outcomes for children benefitting from accessing this payment are not monitored or evaluated. Under current policy settings SCCB is not intended to be an ongoing support payment.

Child Care Rebate (CCR) – provides all families up to 50 per cent of their out-of-pocket approved child care expenses after CCB has been received, up to an annual maximum of \$7,500 per child.

CCR is a capped, proportional payment and the amount received is linked to the fees charged by the service. It was introduced in 2004 as the Child Care Tax Rebate, four years after the CCB system became operational, and covered 30 per cent of out-of-pocket child care expenses.

In 2012-13 the Government spent around \$2.6 billion in CCB (including \$139 million in SCCB) and \$2.18 billion in CCR funding.

#### Service Delivery of Child Care Fee Assistance

DHS is responsible for the assessment of an individual's eligibility for CCB and CCR; and service delivery of CCB and CCR payments paid directly to families, including the ongoing eligibility for payments. DHS is accountable for controlling risks to payment accuracy that are solely the result of individuals' behaviours and changed circumstances.

A fundamental principle in the design of the Child Care payment programme introduced in 2000 was to make payments readily accessible to families and minimise compliance impost and costs. As a result, DHS' approach to managing the key risks to child care payments has been to rely to a large degree on up-front assessment of eligibility, voluntary self-disclosure and end-of-year income reconciliation.

### ***Programme 1.3 – Early Childhood Education (National Partnership Agreements)***

Programme 1.3 consists of Government support through National Partnership Agreements (NPA) with states and territories. The four NPAs that focus primarily upon CCECL are:

- NPA on Universal Access to Early Childhood Education
- NPA on the National Quality Agenda for Early Childhood Education and Care
- NPA on Indigenous Early Childhood Development
- NPA on TAFE Fee Waivers for Child Care Qualifications

More information on these NPAs can be found at [education.gov.au](http://education.gov.au), [coag.gov.au](http://coag.gov.au) and [federalfinancialrelations.gov.au](http://federalfinancialrelations.gov.au).

**Outcome 1 forward estimates**

**Table A1.2. Forward estimates by programme**

	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000	Total^ \$'000
<b>Programme 1.1</b>					
Child Care Services Support	342,632	367,635	359,110	366,556	1,435,933
Job Education and Training	82,941	109,822	134,918	138,468	466,149
Early Years Quality Fund	134,833	164,973	-	-	299,806
<b>TOTAL</b>	<b>560,406</b>	<b>642,430</b>	<b>494,028</b>	<b>505,024</b>	<b>2,201,888</b>
<b>Programme 1.2</b>					
Child Care Benefit	2,815,568	3,013,024	3,152,954	3,334,983	12,316,529
Child Care Rebate	2,627,095	3,009,358	3,376,617	3,786,847	12,799,917
<b>TOTAL</b>	<b>5,442,663</b>	<b>6,022,382</b>	<b>6,529,571</b>	<b>7,121,830</b>	<b>25,116,446</b>
<b>Programme 1.3</b>					
Universal Access (Retained Funds)	3,000	1,500	-	-	4,500
<u>National Partnerships</u>					
Universal Access	407,000	234,900	-	-	641,900
Indigenous Early Childhood Development Children and Family Centres	78,024	-	-	-	78,024
TAFE Fee Waivers for Child Care Qualifications	17,205	9,671	-	-	26,876
National Quality Agenda	19,080	NFP	NFP	NFP	19,080
<b>TOTAL</b>	<b>524,309</b>	<b>246,071</b>	<b>-</b>	<b>-</b>	<b>770,380</b>
<b>Grand Total</b>	<b>6,527,378</b>	<b>6,910,883</b>	<b>7,023,599</b>	<b>7,626,854</b>	<b>28,088,714</b>

Source: MYEFO 2013-14

^ as at 2013-14

NFP = Not for publication

## Appendix 2: Further details on child care subsidies

### *Cost of CCECL for taxpayers*

Over the next four years (to 2016-17), Australian Government expenditure on CCECL is expected to exceed \$28 billion (see *Figure 2: Australian Government CCECL outlays, 2003-04 to 2016-17 (\$000)* above). Child care fee subsidies (CCB and CCR) form one of the fastest growing areas of Australian Government outlay, driven principally by increased numbers of children in care, increased hours in care and rises in fees. In 2003–04, expenditure on CCB and CCR was \$1.4 billion. Latest projections suggest that by 2016–17 this figure could be around \$7.1 billion.

Currently, families with incomes under \$41,000 are eligible to receive the maximum CCB rate. In the June quarter 2013, approximately 25.8 per cent of all families using approved child care, were receiving the maximum CCB amount available. Around \$333.4 million (or 54.6 per cent of the total CCB expenditure) was the estimated entitlement for families receiving the maximum amount of CCB.

By 2015, it is estimated that outlays for CCR will exceed outlays for CCB. Beyond this, CCR outlays will continue to grow rapidly, while CCB will grow at a high, but much slower rate. The expectation is that upward pressures on fees, including from wage growth, the NQF and population increases, will continue. This will result in continued growth in outlays.

In the June quarter 2013, total expenditure for CCR was around \$583 million. Of this total expenditure, 42.9 per cent went to families who did not receive any CCB entitlement, either because families did not claim or because their income was too high to qualify. Around 14 per cent of CCR expenditure went to families receiving the maximum CCB amount available.

### *Child Care Fees*

Child care services are responsible for setting their own fees. Approved child care services submit information to the Department of Education about fees charged for their services. This information is published on the MyChild website.

**Table A2.1: Average hourly fees and average number of hours per week by service type, June quarter 2013**

Approved care type	Average hourly fee (gross)	Average number of hours per week
Long Day Care	\$7.50	27.2
Family Day Care	\$7.30	27.0
Outside School Hours Care	\$6.05	10.7
In Home Care	\$13.85	27.7
Occasional Care	\$8.85	10.9

Source: Department of Education administrative data

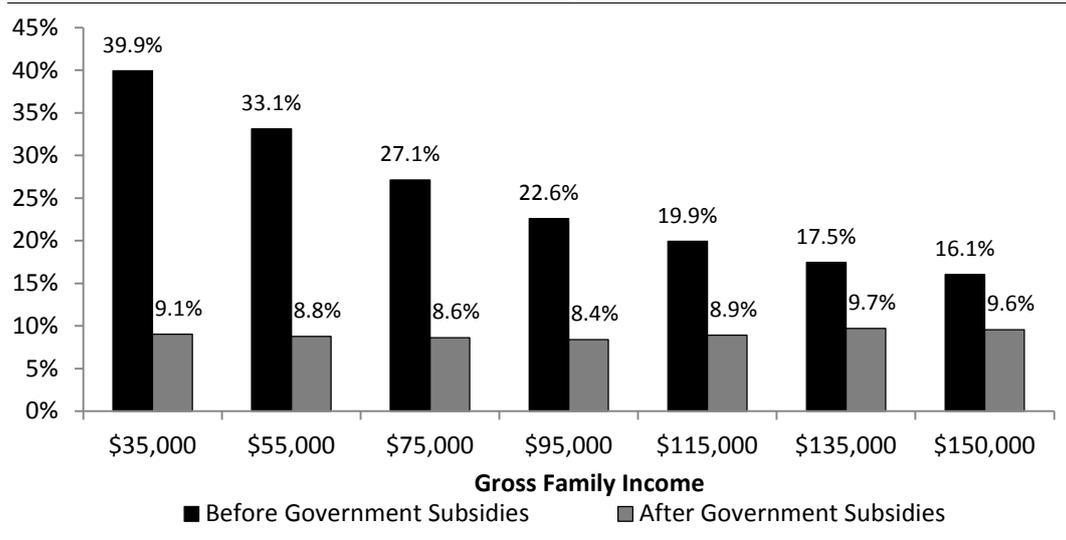
### *Out-of-pocket costs*

Gross fees are the total cost of child care and are usually the service's advertised price. As most families receive a significant fee reduction through a combination

of CCB and CCR, the gross price is not reflective of the actual costs paid by families. Net fees, or out-of-pocket costs, are the costs to families after child care subsidies have been taken into account.

Figure A2.1 shows the current out-of-pocket costs as a proportion of disposable income for families at eight annual gross incomes and illustrates the relative affordability of child care for different income groups and their relative ability to pay for child care.

**Figure A2.1: Out of pocket costs for one child in long day care before and after Australian Government subsidies, March quarter 2013**

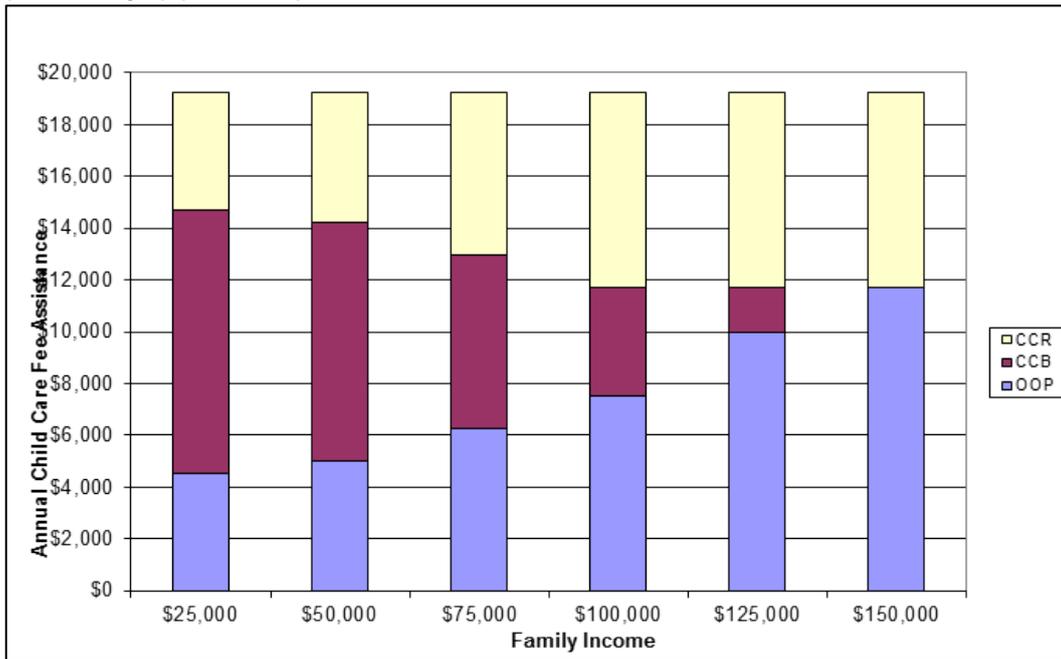


Note: Out-of-pocket costs (before and after Australian Government subsidies) are shown for families with one child using long day care for 50 hours of care per week.

Source: Department of Education administrative data

Figure A2.2 shows the amount of child care subsidies and out-of-pocket costs for families at different income levels (assuming one child in Long Day Care for 50 hours per week with a child care fee of \$360 per week).

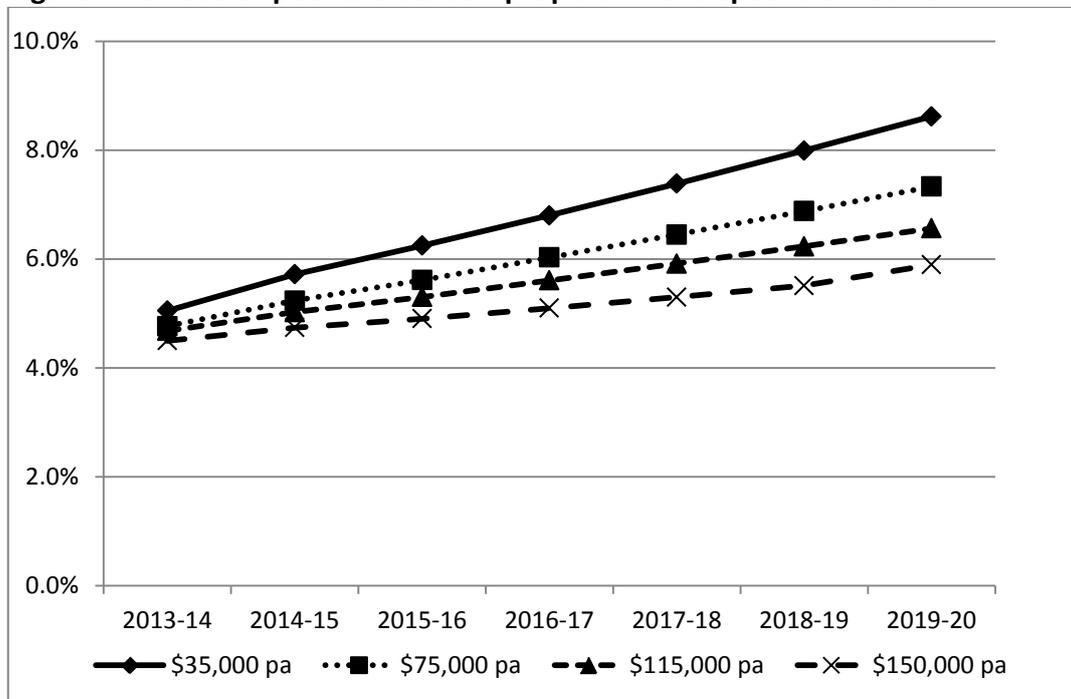
**Figure A2.2: One child in LDC, 50 hours per week, estimated fee \$360 pw (\$18,720 pa) (2012-13)**



Source: Department of Education administrative data. OOP = Out of Pocket.

Figure A2.3 shows the projected proportion of disposable incomes for different income level families over time, indicating the comparative loss of the value of CCB to CCR.

**Figure A2.3: Out-of-pocket costs as a proportion of disposable income**

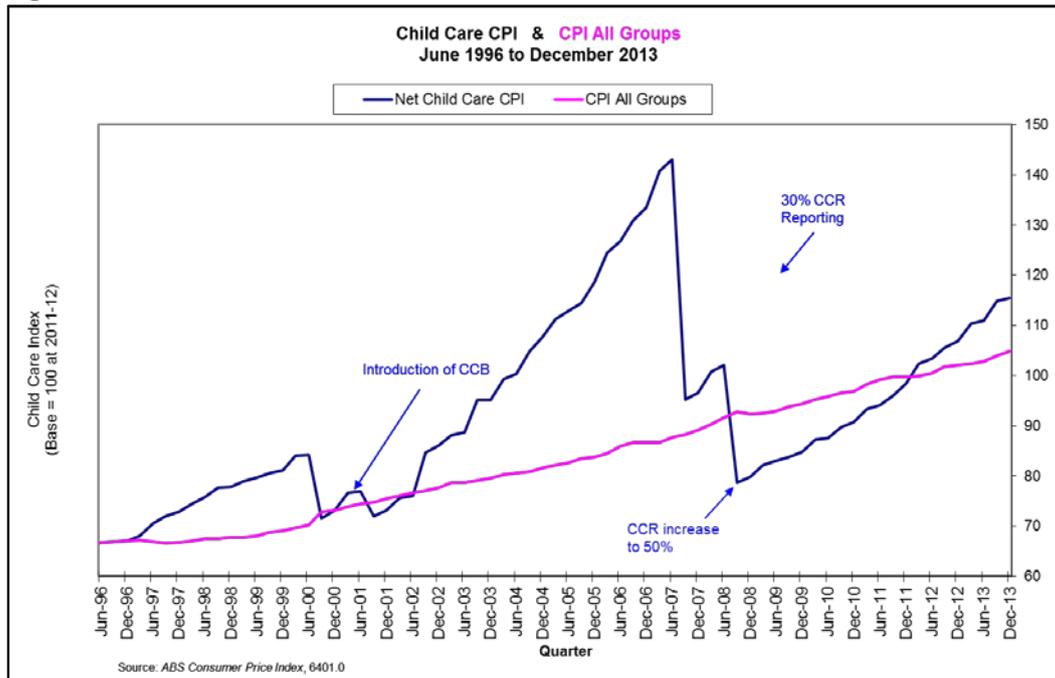


Source: Department of Education administrative data

### ***Affordability over time***

To produce an estimate of an average household's gross child care fees payable, the ABS collects prices from a sample of child care centres, including FDC, and private and community child care centres in each capital city. The net child care cost index is the gross cost less the estimated CCB and CCR entitlements, based on income and usage profiles of a representative sample of child care users. Figure A2.4 shows how policy changes have impacted on affordability between 1996 and 2013.

**Figure A2.4: Child Care Prices and CPI 1996 to 2013**



Note: The ABS did not include CCTR/CCR in the Child Care CPI estimate until 2007. A one-off CCB increase of 10 per cent occurred in the 2006-7 Budget.