

## Productivity Commission Public Inquiry into Childcare & Early Childhood Learning

### My credentials

The following submission is individual because it raises the need for a radical overhaul of some of the basic designs of the current program. Few organisations will feel comfortable endorsing such proposals although many would identify the issues, and have done in the submissions I have read. My involvement in the policy aspects of this area extend from advocacy on the original child care program from 1972 on, setting up the first federal funded after school care program in 1973, devising and setting up the policies for the Needs Based Planning model (1979-82) and working on state government implementation 1983/4. Since then I have continued as researcher and advocate for the program. I have recently become involved in Indigenous children's service issues (2008- ) as well as seeing the issues faced by grandchildren. Therefore I contribute both a long term engagement, the academic skills as researcher and policy advocate and current experiences. I am on the Board of Ngroo an early childhood cultural training unit.

Eva Cox, AO, Professorial Fellow, Jumbunna IHL, University of Technology Sydney

### Defining the issues

While there are many early childhood services that do meet most of their user needs, there are also too many indicators that the current major service funding model is not, and maybe cannot, effectively meet diverse policy and families' needs. These deficiencies are clearly identified in both official data and the Government's criteria for the establishment of the Inquiry.

Last November, the incoming government indicated its awareness of the many problems when it announced the current Inquiry in the following terms.

*The Government is delivering on its priority commitment to task the Productivity Commission with an inquiry into how the child care system can be made more flexible, affordable and accessible. The Inquiry will identify how the current system can be improved to make it more responsive to the needs of parents..... We want to ensure that Australia has a system that provides a safe, nurturing environment for children, but which also meets the working needs of families. Our child care system should be responsive to the needs of today's families and today's economy, not the five-day 9am-5pm working week of last century. .*

*The Commission has been asked to specifically report and make recommendations on:*

- *the contribution of childcare to workforce participation and child development*
- *current and future need for childcare in Australia, particularly given changes in work patterns, early learning needs, childcare affordability and government assistance*
- *the capacity of the childcare system to ensure a satisfactory transition to schools, in particular for vulnerable or at risk children*
- *alternative models of care, including those overseas, which could be considered for trial in Australia*

- *options - within existing funding parameters - for improving the accessibility, flexibility and affordability of childcare for families with diverse circumstances*
- *the impacts of regulatory changes, including the implementation of the National Quality Framework, on the childcare sector over the past decade*

Most of the above items indicate particular problems for users: the first item suggests that lack of appropriate services inhibits workforce participation; the second shows major flaws in the flexibility of the current system, the fourth the need for new ideas and the fifth covers the areas that need improvement. On the basis of this set of questions, it is surprising that neither the terms of reference, nor the accompanying paper by the Commission, raise the question of whether the primary funding model of almost all the services in the program is, in itself, a possible contributor to the problems identified.

The main issue to be questioned in whether fact is that the government has resiled from any direct control over the services gives it adequate ability to control the way the program works. The model of funding via consumer assumes that the market 'power' of users can adequately individually influence the types of services on offer. The government, under this delivery mode cannot influence or specify those aspects that affect access: locations, costs, numbers and types of places, hours of operating and ancillary services. In contrast to other major Commonwealth funded community service program, such as nursing home places, the main funding of day care centre based services has no direct dealings with the service deliverers, and just subsidises the 'customer fees'.

There are processes that influence the quality of service delivery, and state originated controls on staffing levels and what activities are offered in services, but none on broader planning issues such as locations, hours, types of services, numbers of places etc. The recent federal Early Years Learning Framework changes were introduced to encourage better quality of care but do not have the capacity to control the other aspects of access mentioned above. Yet it is the issues of access, flexibility and affordability that dominate the concerns of users.

Early childhood services are a substantial set of programs. The Productivity Commission report identifies its current and increasing funding base. The estimated per child costs averages more than \$5,000 per child. This policy approach suggests the current structure makes it hard for the funder to offer clear accountability for a program that averages out at around \$5,000 per user, in terms of appropriate affordable access by children and their families.

*Total Australian, State and Territory government expenditure on early childhood education and care services was \$6.8 billion in 2012-13, compared with \$6.1 billion (an increase of \$642 million, or 10.5 per cent in real terms) in 2011-12. Nationally, the average annual growth rate of real expenditure was 7.9 per cent between 2008-09 and 2012-13 (table 3A.3). Australian Government expenditure accounted for 79.5 per cent (\$5.4 billion) of total government expenditure on early childhood education and care services in 2012-13 (tables 3A.3 and 3A.4). State and Territory government expenditure on early childhood education and care services in 2012-13 was \$1.4 billion (tables 3A.3 and 3A.5). Total Australian, State and Territory government expenditure reporting on early childhood education and care services is also available by jurisdiction*

The data from the recent Productivity Commission Report on Government Services volume B<sup>1</sup> on Child Care Education and Training confirm that there are serious gaps in services, as is illustrated by the article below in the Australian<sup>2</sup>, derived from the data:.

***Parents of nearly one in six children are looking for a childcare place***

PATRICIA KARVELAS *THE AUSTRALIAN* 29.1.14

*A NEW Productivity Commission report reveals that more than 16 per cent of children need but cannot access a childcare place, with parents of just over half these cases - 51 per cent - saying the main reason they want additional access to education and care is to allow them to meet work commitments.*

*The figure, contained in the commission's report into the current state of the sector, released yesterday, shows that the availability of childcare is becoming a significant problem for working families.*

Other figures in the same report suggest that funded services are not being used by proportionate numbers of children with special needs, indigenous children etc. There is also, at the other end of the financial spectrum widespread pressure from high earning groups for further extension of the payments to parents using approved services to cover individual home based nannies as many such high earning mothers cannot find the necessary hourly flexibility of care in the existing service system.

This last pressure point raises issues about the purpose of the subsidy. If it is basically a voucher to reduce the costs of work related care, then the nanny options seems logical. However, this raises the question of how seriously the funding should relate to approved standards of the quality of the care provided, that would be hard to ensure in private care arrangements.

Therefore it is important to take seriously the mal-distribution of appropriate services as there are frequent complaints and evidence about lack of services in many areas and oversupply in others. The lack of vacancies for the more expensive younger groups, or in areas with high costs of real estate suggest the need for funding that is more proactive in ensuring particular gaps in the planning and distribution of services are met.

### **Problems with the Brief**

There is a basic question of whether the Productivity Commission has the appropriate capacity or even the right brief to look at the broader issues in the early childhood service needs. How far is the brief able to deal with the context of children's services' role as a major community service rather than just addressing the services as another 'industry' with a focus on its profitability, and capacity too free more women to take on paid work. Were the last focus to dominate, the proposals may exacerbate the current problems that are, in part, the result of the over commercialisation of what was once a major community (not for profit) service.

In that context, issues of access and control over the services and how they do, can and should relate to other community services become major issues. The following sections look at both the history and

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<sup>1</sup> <http://www.pc.gov.au/gsp/rogs>

<sup>2</sup> <http://www.theaustralian.com.au/national-affairs/parents-of-nearly-one-in-six-children-are-looking-for-a-childcare-place/story-fn59niix-1226812478181#>

how it relates to developing options for ensuring that the community and social benefits of services are maintained and expanded.

### **How the current funding overlaid a planning system**

Early childhood services is the rather broad title, now covering a range of services a mix of education and non family care for children below school age or out of school hours. The core services for this area have over time been roughly divided into those offering long day care, for children, for primary carers with other commitments and preschool which focuses on children's developmental needs. This crude divide is based on history and funding rather than the realities that all services for children when parents are not present, similarly need to deliver both good education/developmental activities and offer safe enjoyable alternative care situations. The divide ignores the reality that both children and parents see more similarities than differences in the services and often only hours of opening separate their functions.

Children's services funding at the federal level started seriously in 1972, when the McMahon Government funded a proportion of qualified teacher salaries in community day care to increase the quality of care as more mothers moved into paid work. The incoming Whitlam Government was initially more interested in preschools, not long day care, but then was convinced to expand funding for both and include out of school care. The Fraser government continued long day care funding, but returned preschool funding to the states. A brief exploration by Minister Spender in 1981 for funding the commercial services was rapidly rejected.

The market model is relatively recent and derives from shifts in assumptions about the role of the State. The incoming Hawke Labor Government (1993) expanded day care services considerably by introducing a planning model that funded capital and recurrent service cost on the basis of local population needs<sup>3</sup>. The operational funding set up a contract between the government and the community based service which established an agreed subsidy for a needed service, covering location, numbers and types of places, opening hours and fees. However, in the early 90s, Keating's neo liberal tendencies emerged and he decided to fund fee subsidies for commercial services.

This change resulted in the rapid expansion of the corporate sector, which then pressured Howard's incoming government to remove the 20% direct operational subsidy for community run centres to level the playing field. What had been relatively small commercial sector grew even more rapidly and became a major investment option, as demonstrated by the rapid growth of chains such as ABC. The new services often competed with existing community ones rather than servicing unmet needs in higher cost areas.

The 1997 Howard changes to the system removed the last of the Commonwealth power to control the distribution or types of any services funded through the new model of paying parental fee relief. The income of centres now came via the user fees which usually included CCB, ( Commonwealth Childcare Benefit) and the Child Care Rebate (CCR) was added as fees rose rapidly to cover some of the gap. The means tested CCB currently pays a maximum rebate of \$299.00 pw for full time care and up to a capped \$150 CCR per week to cover 50% of gap fees, which is not means tested. These subsidies are standard per child so do not vary with the age or particular needs of children, despite the additional costs of staffing for younger age groups.

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<sup>3</sup> I had some involvement in developing this model while Labor was in Opposition in 1981.

## Problems of the funding changes

Centres are therefore no longer obliged to meet any requirements for locations, numbers and types of places or special needs. All they had to do, until fairly recently, was to register with a commonwealth quality agency and meet some basic standards of various state and territory standards. Now they have to comply with some quality ratings but these are intended to inform parents rather than control services.

The changes also cut some funding for capital available to not for profit groups to open new centres, renovate or extend. This made it impossible to set up new services in areas where there was high need but not attractive returns on capital. The planned distribution of places, in relation to population and needs of areas, introduced by the Hawke government, was no longer relevant as all new places were automatically approved for fee relief. Unlike the carefully planned funding of aged care beds, the onus in child care was purely on the owners of care services to decide what they would offer and where. The end result is that it is extremely difficult to ensure that the services are what is needed by government and users.

## Defining the current role of the commonwealth government

The current funding of early childhood services is summarised in the PC Report on Government Services 2014 - Review of Government Service Provision as is shown below : <sup>4</sup>

*The Australian Government and the State and Territory governments have different but complementary roles in supporting early childhood education and care services. Both levels of government contribute funding to services, provide information and advice to parents and service providers, and help plan, set and maintain operating standards.*

*The Australian Government's roles and responsibilities for child care include:*

- *paying Child Care Benefit (CCB) to eligible families using approved child care services or registered carers*
- *paying Child Care Rebate (CCR), formerly the Child Care Tax Rebate (CCTR), to eligible families using approved child care services*
- *providing funding to State and Territory governments through the National Partnership Agreement on Early Childhood Education (NP ECE) to support the achievement of universal access to early childhood education*
- *providing funding and support to implement the National Quality Framework (NQF) through the National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care*
- *funding organisations to provide information, support and training to service providers*
- ***providing operational and capital funding to some providers. ( budget based funding)***

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<sup>4</sup> <http://www.pc.gov.au/gsp/rogs/> which clearly states the role of the federal government:

Interestingly the final item on the above list offers the one example of more immediate engagement in the services covered in the above lists' funding. Budget based funding is the only remaining example of a direct contract arrangement between the organisations who provide forms of care and the government as funder. This item covers the funding of one relatively small program, around \$60M out of a total budget of over \$5B. The below item describes the program:

*The Budget Based Funded (BBF) Programme is an element of the Community Support Programme, under the broader Child Care Services Support Programme. The BBF Programme provides a contribution to the operational costs of approximately 340 early learning services. These services are predominantly located in rural, remote and Indigenous communities **where the market may not support the viable operation of services or where there is an additional need for culturally competent services for Aboriginal and Torres Strait Islander children and families.***

The Bulletpoint Group listed the above description of funding options on line, continued its description of rationale for the program as being mostly targeted at communities, including Indigenous ones, to cover the gap left by *market failures*. The argument that some services were not well served by market models is also offered and developed in detail by SNAICC, the peak Indigenous child care body . In its defense of the program funding, the SNAICC paper explains why there is a need for some types of services to be directly funded so they can meet the diverse needs of communities and users that do not fit the Child Care Benefit (CCB) model. <sup>5</sup>The above critique identified the flaws of a user based system for parents who do not have 9-5 jobs that fit the CCB model. The direct funding of parents in the case of these services highlights the limits of a model that is based on assumptions that parental needs can fit a more or less universal model of services. The question is therefore where on the continuum of complex parental and child needs, an over simplistic theory of markets 101 can be applied. If there is no perfect competition, demand and supply will not create a balance.

This example suggests again that a purely market model cannot be expected to meet the complexity of needs of the users of early childhood services. The simplistic belief that such services offer an interchangeable good, and supply could generally exceeding demand to ensure there is choice doesn't work adequately so needs to be changed to return some control to the funder.

The basic market model of funding, via a pseudo voucher system, means there is no ability for the funding body to specify or control locations, types of places, costs, hours or other factors that influence access to services and their appropriateness.

### **Affordability**

The current fees charged diverge wildly depending on supply, area, capacity to pay, age of children, auspice and any other factor that the owners choose to use. The range, even within localities, can vary from \$60 per day to \$150 a day and do not apparently relate to quality of care on offer. Early

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<sup>5</sup> <http://www.snaicc.org.au/policy-advocacy/dsp-landing-policyarea.cfm?loadref=43&txnid=36&txnctype=post&txncstype=>

Childhood Australia did a small survey<sup>6</sup> that stated " factors other than quality of service delivery are having at least as much, if not more, influence on the daily fees charged by long day care services.' The gap fees, particularly for younger children where staff ratios are higher, are often unaffordable and some areas cut quality to reduce fees. More experienced staff with higher qualifications all add to costs. (see also extra dat at end of submission.)

### **Availability**

There are still shortages of care places, particularly for under twos and in high demand areas, despite many more services being now provided! Many services have long waiting lists, in other areas there are too many places, particularly for the cheaper to care for older age groups. Market models for the provision of services assume that the seller and buyer have relatively similar knowledge, resources and capacities to negotiate and pay. This is not the case with most parents seeking care, who tend to take what is on offer, as finding a good fit of hours, location, days and costs is far from easy. The claims that there are many vacancies are based on assumptions that demand for particular days, times and age groups are not differentiated, but they are and that trust relationships don't matter in making choices.

### **The current limits to possibilities for change**

This government initiated inquiry by the Productivity Commission seems to be hobbled before it really starts. The questions raised in the terms of reference are limited to the current funding envelope despite terms of reference that included delivering services that can cover a wider range of issues. These include hours parents work or study, or wish to work or study, the needs of rural, regional and remote parents, as well as shift workers, accessibility of affordable care, types of child care available, usual hours of operation of each type of care, the out of pocket cost of child care to families and the needs of vulnerable or at risk children. This brief seems impossible unless some serious questions on the structure of payments can be raised.

The brief fails to include possibility of restructuring the payment system to create a clear accountability via a direct basic relationship between funder and provider. It states only 'Mechanisms to be considered include subsidies, rebates and tax deductions, to improve the accessibility, flexibility and affordability of child care for families facing diverse individual circumstances'.

The reforms needed should start with major changes to the funding model that allows the funder to require the provider to offer services that meet family and policy needs. The market model has not been effective in addressing the needs of children and parents for more flexible service models, and for the more costly versions. Nor has it delivered any level of cost controls and benefits. Despite increased numbers of services, the current system is expensive, and does not meet far too many expressed 'customer' needs.

### **Options for change**

A level of government control over services and a clear requirement for more community and user focus could ensure that funded services were able to meet diverse needs. This would encourage the concept of integrated community services that was once part of the original child care funding model. Funding policies must solve the following problems:

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<sup>6</sup> Childcare fees don't reflect top quality *PATRICIA KARVELAS, [THE AUSTRALIAN](#) 7/12/2013*

1. The two child care payments bear little or no relationship to actual child care costs in particular centres or particular mixes of services, so once fees exceed the maximum subsidy, the 'gap' fee must be met by the parent.
2. There is a need to continue some subsidy to higher income two earner families, as there needs to be incentives to ensure that the lower earners do not drop out of paid work if the costs are too high, as the primary carers measure their net income not partners' earnings.
3. This one size fits all formula makes no allowance for the differences in the costs of providing care for babies and children, or developmental needs that require more experienced/trained staff to assist children who need professional interventions.
4. Centres, particularly in low income areas, may cut costs as much as possible to limit the gap fees by using less experienced, less qualified people which may disadvantage those children who often have needs for higher levels of expertise.
5. The prevalence of chain commercial centres, which need to make a profit, offers cost contained models that generally put no time aside to develop social and community links.
6. Demand for services, in this so called market, area does not seem to stimulate supply as the needs of users do not match the criteria for investment eg land costs or capacity to pay higher fees, which are used as a base for investment by commercial operators rather than parental and local needs.
7. Staff wage rises are badly needed to contain turnover and ensure quality but are not taken into account in the funding, setting up tensions between parents and providers.
8. Indigenous services are part of the stratum of services which often need more funding. While some are covered by Budget Based funding, others are under-funded and mainstream services used by Indigenous children need better access to cultural training and support.

Solutions need to look at the current issues, including absurd splits of funding and control between Federal and state governments that still covers preschools and vacation care. The focus should be on accessible, affordable quality care, not the different auspices for the centres. A new funding policy should cover all services and specify conditions for centres and services that receive public money: appropriate costs of quality care, an adequate return on private capital but not uncapped profits. Conditions in contracts should prioritise user input and ensure a focus on child/parent needs.

### **Policy proposals**

The following proposals outline possible directions for new policies. They differ from most of the current floated proposals because they focus on funding services so that both quality and fees can be controlled. This involves making subsidies to centres subject to criteria of location, services offered, and fee schedules. These could only be varied if circumstances changed. Centres could be created outside the system but not be eligible for subsidies or fee relief.

Directly funding centres for a proportion of agreed costs, together with fee relief for parents, would establish the necessary contractual relationships between government and centres. Funding would be contingent on the centres being accredited and in areas where there is demand for centres

### **Recommendations**

- Establish the principle of a basic contract between approved services and the government which can cover issues of defined needs and undersupply.

- Redirect the Child Care Rebate funding to centres as the basic subsidy per service that reflects the numbers and ages of children. This would be contingent on services offering a guarantee that the centres will reduce all fees by an agreed amount to ensure that all parents gain some benefit. The reduction levels need to be worked out in relation to approved fees charged.
- Make the subsidy contingent on a basic contract between the centres and the funding body on location, the numbers and types of places and age groups, hours of operation, flexibility and fee levels as this will allow subsidising more flexibility
- Expand services' ability to offer home based and after hours services that ensure flexibility but ensures quality care and avoids exploitation of private labour.
- Establish the principle that subsidies must be based on quality of care criteria not just minding.
- Funding submissions by the centre should articulate what staffing levels they require to meet diverse children's needs for experience and qualifications in care settings. .
- Centres should submit their budget on a breakeven level, with a margin of 7% profit on capital investment to cover development of services or profit to ensure centres which are privately funded will get reasonable 'rent' on capital resources used.
- Capital grants must be made available through a joint federal/state agreement for new not for profit community centres and upgrading old ones, possibly 50/50 for buildings with the state offering land parcels (see 1980s model).
- All centres would be required to have a parental/community committee to make decisions on staffing, activities and programs.
- All centres should be required to make links with local communities and related services as a condition of funding.
- Children's centres should be integrated into wider community service networks with an ethos that encourages co-operative rather than competitive functioning, capacity and trust?
- Providing children's services as a basic requirement for healthy development and good citizenship requires more Government promise of 15 hours of pre-school in the year before school entry. An integration of state and federal funding of services needs to be addressed so parents and children have more predictable options

## **Conclusions**

The government needs to move away from the assumption that a basic market model is appropriate for meeting parental and child needs, The Government should take due credit for the current and proposed changes to the quality framework but need to broaden their emphasis on human capital economic outcomes, ie future employment to wider equity and good social outcomes.

The Commonwealth government must change from funding most child care centres via two forms of fee relief for parents to a more simple system that combines fee relief and direct payments to centres. The above proposals offer options for alternative funding which would allow services to become more diverse and able to meet the need for more accessibility, more flexibility and more effective service delivery to meet national children and parental needs.

## **Post Script**

There are additional useful statistics and other data that adds to the points made above emerging on the closing date for submissions. They are briefly listed below:

### **Costs of care**

Sale of three inner city centres (Early Achievers) in Sydney, reported in SMH (32.14) by Kirsty Needham to new owners (Only About Children). This company runs other centres which charges \$164 per day so are likely to raise the fees considerably (\$40 plus at least!) This shows the diversity of changes in the sector and area.

The government has released figures suggesting a 50% rise in average fees since 2007, more than CPI.

*The Federal Government's June Quarter 2013 Child Care and Early Learning in Summary document – officially released tomorrow – will show the number of families using child care has increased 6 per cent to 742,690 since June 2012.*

*However, Ms Ley said the quarterly update would also confirm long day care (LDC) hourly fees continued to grow an average of about 7 per cent per year under the previous Labor Government.*

*This takes the total increase in LDC hourly fees since Labor took office in 2007 to 50 per cent\*, with the September 2013 quarter (Labor's final quarter in power) still to come, she said.*

*The report also finds the average number of hours parents used LDC services did not increase at all during the period. <http://sussanley.com/report-cements-labors-legacy-of-skyrocketing-child-care-costs/>*

The old Fairfax funded centre, an early employer based service, in Wattle Lane Ultimo is now closed, to be replaced by a development of residential units.

### **Pressure for private care subsidies**

Cultural Au Pair Association has lobbied for Au pairs to be included in eligibility for subsidy and longer visas. These have no training or qualifications! Sun Herald 2.2.14

Louise McBride (Australian 1.2.14) puts a case for direct nanny subsidies, objecting to the current system of in home care, She again ignores quality control and accepts as appropriate a nanny shift of 55 plus hours per week! This suggests major exploitation options.