



**BAY EXPLORERS**

**EARLY LEARNING**

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**Re: The need for Age Differentiated Child Care Subsidy (CCS)**

**Introduction**

Having read your Draft Report on the “A path to universal early childhood education and care” I have a number of concerns in regards to your CCS policy options.

My first concern is that 5 of your 6 CCS Policy Options have “No change” for the CCS hourly rate cap. The CCS hourly rate cap has been cpi indexed since CCS was introduced in 2018, however cpi has not kept pace with payroll increases (due to above cpi wage increases and superannuation increases). As payroll represents 2/3 of the industry’s revenue, childcare fees have also increased at a higher rate than cpi. As a result, an increasing portion of childcare fees are above the hourly cap, adding to families’ gap fees.

I see no recommendation to change the hours of subsidised care (based on the activity test) from 72 hours to 80 hours, and from 36 hours to 40 hours. A family with “full-time” activity receives 100 hours per fortnight or 10 hours a day. A family with enough activity to justify 4 days of care per week or 2 days of care per week, only gets 9 hours a day. I have never understood this discrimination against a parent that works/studies/volunteers part-time versus full-time. Is there evidence to prove they need less childcare per day? I doubt it.

My largest concern is the lack of recognition in the report of the cost difference in looking after a baby/toddler versus a 3 to 5 year old. The biggest contributor to this cost differential is ratios and wages. Payroll represents two thirds of revenue in childcare. Any childcare centre that looks after babies and toddlers is spending the revenue they receive for those 0-2 year olds on just payroll costs due to the 1:4 ratio. By the time rent, nappies, food and other costs are incorporated, Long Day Child Care (LDCC) is losing significant money looking after 0-2 years olds. Even 2-3 year olds (1:5 ratio) is breakeven at best. All money made in LDCC is made in the 3-5 age group. This cross-age subsidisation is an unsustainable business model for LDCC that is being jeopardised by the growth of school based kindergartens.

Below is an extract of a letter I wrote to Paul Mondo, Australian Childcare Alliance (ACA) National President, in early 2021 explaining this problem. The numbers are from FY19, but the issue has only gotten worse as hourly caps haven’t kept up with fee increases.

If you have any questions, please contact me.

Yours Sincerely,

Wayne Black

**Extract of letter to Paul Mondo, ACA National President, dated 17 February 2021.****The Issue**

The purpose of this paper is not to seek greater financial support from the Government, but to ensure the \$9 billion spent by the Government achieves its aims, i.e. to increase productivity by providing affordable and available childcare. As I hopefully demonstrate below, I believe the current policy of paying CCS without differentiating for age puts the attainment of that goal at risk.

**Background – Cost of Care by Age Group**

There are dramatic differences in the cost of care for 0-2 year olds, 2-3 year olds and 3-5 year olds. CCS that does not differentiate for age does not recognise these significant cost differences.

Using my 3 centres in regional Queensland and FY19 data as an example, our average fees were \$103.24 per day. Only one of our centres had differentiated pricing by age and that difference was (and still is) \$2 per day cheaper for 3-5 year olds.

The following table calculates the cost of care by age group and the fees required to cover those costs. The expenses included are Payroll, Property, Food and Consumables, which are variable with the exception of Property. These are deducted from Revenue to ascertain Contribution (which is not profit as there are many more expenses that are independent of child numbers).

	Kindy 4-5	Snr K 3-4	Jnr K 2-3	Todd 1-2	Nurs 0-1	Total
Places	82	66	58	56	24	286
Places % per Room	29%	23%	20%	20%	8%	100%
Ratio	1 to 11	1 to 11	1 to 5	1 to 4	1 to 4	
Staff	7.5	6.0	11.6	14.0	6.0	45.1
Staff % per Room	17%	13%	26%	31%	13%	100%
<b>Average Fee</b>	<b>\$102.94</b>	<b>\$102.94</b>	<b>\$103.56</b>	<b>\$103.56</b>	<b>\$103.56</b>	<b>\$103.24</b>
Average Occupancy	87%	87%	87%	87%	87%	87%
Revenue	\$1,912,072	\$1,538,985	\$1,360,587	\$1,313,670	\$563,001	\$6,688,314
Kindy Grants	\$202,904					\$202,904
Payroll Incl Payroll Tax	\$706,212	\$568,415	\$1,098,935	\$1,326,301	\$568,415	\$4,268,277
Gross Profit	\$1,408,763	\$970,570	\$261,652	-\$12,631	-\$5,413	\$2,622,941
Property	\$179,643	\$144,591	\$127,064	\$122,683	\$105,157	\$679,138
Food	\$82,756	\$66,609	\$58,535	\$56,517		\$264,417
Consumables	\$24,901	\$20,042	\$72,365	\$69,870	\$29,944	\$217,122
Contribution	\$1,121,463	\$739,328	\$3,687	-\$261,700	-\$140,514	\$1,462,264
Contribution/ Place/Day	\$53	\$43	\$0	-\$18	-\$23	\$20
<b>Theoretical New Fee</b>	<b>\$65.14</b>	<b>\$76.06</b>	<b>\$125.85</b>	<b>\$146.76</b>	<b>\$151.98</b>	
New Revenue	\$1,209,859	\$1,137,102	\$1,653,443	\$1,861,688	\$826,223	\$6,688,314

As reflected in the table, every age group has different costs or income. In addition to the 3 different ratios, nursery has a cot room (extra square meterage for which extra rent is paid) and Kindy gets extra funding. As a result, children in Kindy contribute \$53/day and those in Nursery lose \$23 per day. The average contribution is \$20/day.

The Theoretical New Fee is the fee required so that the Contribution/Place/Day is a constant \$20 across all age groups. Note that Theoretical New Fee gives the same revenue as the current Revenue (the 2 yellow boxes).

If I were to base fees on the above table, in FY19 they should have been the following rather than \$102.94 and \$103.56:

- 0-2 year olds - \$148.00
- 2-3 year olds - \$126.00
- 3-5 year olds - \$76.00

### **Background - current CCS System**

The current CCS system does not support such extremes in pricing. The table shows that 0-2 year olds paid an average fee of \$103.56 in FY19, all of which was covered by the hourly rate cap (\$11.77) based on a 9 hour day (\$105.93).

A fee that covered costs would have been approximately \$148 for 0-2 year olds, of which the last \$42 would not have been subsidized because it would have been over the hourly cap. Daily out of pocket would therefore have gone from:

- \$15.53 to \$57.96 for a family on 85% subsidy (income less than \$68,163 per annum),
- \$51.78 to \$94.09 for a family on 50% subsidy (\$173-252k before tax family income).

Ironically, these extra out of pocket expenses for the first 2 years would not be reflected in savings in the last 2 years of care. Extra daily outlays would be greater than \$42 for 0-2 and \$20 for 2-3. At a daily rate of \$76 for 3-5 year olds, the 85% families would save about \$4 per day and 50% families about \$14 per day.

### **Background – The market**

Most LDCC centres cross subsidise the fees paid for 0-3 year olds with the fees paid for 3-5 year olds, whether they know it or not. Whether this is desirable or not is no longer relevant as new competitors (dedicated kindergartens and private school kindergartens) are making this practice untenable.

In the Hervey Bay market, one of 2 markets I operate in, there are 1142 licensed places in 16 operating centres (refer attached Supply Table). Of these, 212 places are in 4 centres that only offer programs for 3-5 year olds (Condy Park and 3 private schools). Also note that these 4 organisations offer the cheapest fees.

The risk to the industry (and for the Government) is that a CCS that doesn't differentiate by age, allows some operators to cherry-pick the "profitable" 3-5 year olds with cheaper fees. This will force full service operators, over time, to either offer less care to 0-3 year olds, dramatically raise prices for 0-3 year olds, or a combination of both. None of these outcomes align with the Government's aims of affordable and available child care. Certainly a dramatic price rise for 0-3 year olds would lead to a significant reduction in demand.

If you believe this is alarmist, consider that already within the industry there are many operators who don't provide care from 6 weeks to 15 months and sometimes 18 months. As a result there is already a shortage of places for babies and toddlers. In Hervey Bay, 7 of 16 operators don't offer care for 0-15 months.

### **Suggested Solution**

I am not seeking an increase in the total CCS spend. What I am seeking is a redistribution of it, so that the hourly cap for 0-2, 2-3 and 3-5 year olds reflects the ratios and other costs required for their care. A model that incorporates ratios, payroll as a percentage of all costs, and attendance percentages by age group could easily give hourly rates with a weighted average of the hourly cap (currently \$12.20), therefore costing Government no more.

For example, assuming payroll is 66% of expenses, that 0-2 year olds is 30% of attendees, 2-3 is 20% and 4-5 is 50% would give the following Hourly Caps for FY21:

Age	Hourly Cap
0-2	\$16.69
2-3	\$14.19
3-5	\$8.71

This would give a weighted average CCS of \$12.20.