NSW FAMILY DAY CARE ASSOCIATION INC.

Submission on the Productivity Commission's ***Draft Report – a path to universal early childhood education and care*** from NSW Family Day Care Association

NSW Family Day Care Association wishes to make the following comments on the Productivity Commission's Draft Report – a path to universal early childhood education and care.

We have chosen to focus on the main draft findings, recommendations, and requests for information which we believe:

- will most assist the continued provision and expansion of Family Day Care in Australia;
- we can contribute our expertise or knowledge to help the Productivity Commission in drafting its final report; or
- have ignored, overlooked or misunderstood the unique situation of Family Day Care as a small but important part of the education and care sector.

Thank you for this opportunity to comment.

Comments on Recommendations and Findings

1. Draft Finding 5.5

We welcome and agree with **Draft Finding 5.5** (that Family Day Care (FDC) can be an effective solution to addressing thin markets.)

Family Day Care has the capacity to:

- establish quickly
- with low or no capital costs
- to be extremely responsive to local situations
- to be established in areas where demand would not make centre based services viable

The Draft Report (P349-350) states that the reason that the use of FDC has not been fully realised is because of “systemic financial integrity risks” and points to the FDC Capability Trial as providing outcomes which could lead to more use of FDC in thin markets.

However, we note that there is little in the existing funding system for FDC services which would make it attractive, or even possible, for FDC services to expand or to be established in thin markets even if the presumed integrity risks are closed. Most FDC services are contracting in size, not expanding.

Recruitment of new educators is increasingly challenging due to:

- the requirement that they must have a Certificate III before becoming a FDC educator. This means that FDC can only recruit new educators from:
    - already qualified centre based services educators
    - people who can support themselves via other means while studying
    - people already doing FDC in another area
- the relatively low margins FDC educators can make, especially when services need to charge high levies on their educators per hour to remain viable themselves
- the increasing complexity of becoming a FDC educator – especially a self employed one.

All of these things are compounded in areas such as thin markets where there may not be enough children needing care to ensure a FDC educator was fully utilised and therefore earning a high enough income to survive.

Without substantial financial assistance provided to prospective educators, existing educators, and support services, it's improbable that FDC's capacity to address demand in thin markets will result in actual placements.

2. Draft Finding 7.3

We welcome and agree with **Draft Recommendation 7.3** (a higher hourly rate cap for non-standard hours).

Family Day Care educators are well positioned and do supply education and care in non-standard hours. However, there's minimal motivation to do so, as FDC is predominantly viable with a minimum of four children per hour. If an FDC educator were to have just one child per hour during non-standard hours, their net hourly earnings might only amount to $4-$8 per hour. This is not high enough to act as an incentive to supply out of hours care on a regular basis.

3. Draft Recommendation 3.6

We welcome **Draft Recommendation 3.6** (that governments should fund professional development). FDC educators lack the financial means to invest in professional development, and the services are unable to provide it due to financial constraints. However, given the considerable isolation experienced by FDC educators compared to their counterparts in the sector, they are the most in need of such development opportunities.

NSW Family Day Care Association has supplied a **free** professional development series for FDC educators in NSW over the last 3 years, PD in Your Pocket, partially funded by the NSW Government. Because it is **free** professional development offered online via webinar and specially tailored to FDC sectors, registration numbers have increased exponentially. 98% of NSW FDC services have educators enrolled in the series and increasingly, despite no advertising, FDC educators from every other state and territory are enrolling to participate.

The need is there, but the willingness of governments to fully fund professional development is not. We are concerned that the recommendation does not specify that it should be the Australian Government that funds professional development and also that the recommendation restricts the nature of that professional development. We find that increasingly new and emerging issues require professional development (eg COVID, changes to regulations, changes to Family Assistance Law). Restricting the ability of the sector to request the sort of professional development it has identified the need for is not conducive to a well trained and equipped sector.

Omissions in Recommendations and Findings

1. We believe there needs to be a recommendation designed to prevent the decline of FDC as a service type

We observe that the draft report contains almost no recommendations to counteract the decline of Family Day Care. No measures are proposed to halt the decrease in service numbers, and notably, there are no strategies to mitigate the diminishing size of services.

There are no initiatives aimed at aiding services in recruiting more educators.

Like the rest of the education and care sector, Family Day Care is going through an acute workforce shortage and is having difficulty (as mentioned above) in recruiting new FDC educators. Without being able to attract educators, it is inevitable that FDC services will invariably contract until they are no longer viable and then close.

We are concerned that the report does not emphasise enough the significance of the fact that:

- FDC educator incomes are already low, especially those in markets where it is impossible to have the maximum number of children per day
- there has been a dramatic drop in the number of FDC educators per service

We note the report (P180) notes that the number of people working in FDC has fallen between 2010 and 2021 and states that “this reflects a reduction in FDC services due to changes in policy and regulation and the use of more stringent measures by governments to ensure the integrity of FDC providers”.

We do not believe that this is the only reason for the reduction in the FDC workforce. We've observed instances where services, despite their ongoing operation, have diminished to half their previous capacity due to challenges in recruiting educators.

Because FDC services are no longer funded, when they face reductions in the number of educators they engage, they become unviable. Because they have had to increase educator levies to fund their services, educators’ own incomes have been reduced to borderline viability.

Unless supply side funding is restored to FDC services NSWFDCA is concerned that the FDC sector will continue to shrink as more and more services become unviable.

Our organisation has been funded via CCCF to establish two FDC services in areas of thin supply. Although we have extensive plans in place, without ongoing funding it remains to be seen if services such as our new ones will have the ongoing capacity to remain viable because of the difficulties in recruiting fully qualified educators who can themselves be viable in thin markets.

There are no measures in place to assist services in maintaining or achieving viability.

FDC services are encountering challenges in maintaining viability despite the decreasing number of educators. NSWFDCA is of the opinion that more not for profit services will cease operations in the forthcoming years due to the threat posed by a diminishing educator pool.

There is no acknowledgment that wage increases in centre based care will exacerbate recruitment issues in FDC.

Possible increases to centre based educator wages will make it harder to retain and recruit FDC educators and fees for FDC will inevitably rise on the back of centre based educator wages.

The Draft Report found that "Expected wage increases may relieve recruitment and retention challenges". (Draft Finding 3.1) Wage increases in centre based care will only exacerbate issues in recruitment for FDC educators.

2. There needs to be a clear recommendation about the need to increase the FDC fee cap

NSW Family Day Care Association is unaware of why the Child Care Subsidy Fee cap is lower for FDC services than for centre based services.

There may be a perception that FDC services do not have to pay the high land costs of centre based services but they still face costs. Educator incomes in some areas have fallen dramatically as service levies have had to increase and as educators have to compete with centre based services on fees charged.

Without an increase to the fee cap that puts FDC in line with centre based services, the FDC sector will continue to decline.

Responses to Information Requests

Response to Information Request 2.3 (ISP and FDC)

The Commission has asked if the Inclusion Support Program provides effective support to Family Day Care services and has asked if the Family Day Care Top Up is adequate.

- Only 29.4% of FDC services in NSW have a Strategic Inclusion Plan in place. (A pre-requisite for inclusion support funding). This is less than the national average which is sitting at around 39% (according to the Australian Institute of Family Studies).
- Nationally this compares to 69% of centre-based services and 51% of OSHC services that have a SIP in place.
- Nationally the AIFS reports that only some 25–35 subsidies are provided each year under the FDC Top Up Funding.
- NSWFDCA is aware of only 2 FDC services that have received Innovative Solutions Support.
- FDC services report that there is a disparity between individual educator's understanding of the need for inclusion and their willingness to include children, especially those with high ongoing needs.
- Some FDC educators would regularly include children with additional needs, regardless of formal support, others make it clear that they do not feel they have the capacity to do this as educators working on their own. Some FDC educators are skilled and experienced at working with children with additional needs, some are not.
- Most FDC services report that educators and services are regularly approached to include children who have been excluded from centre-based care. Sometimes educators are willing to do this, but often the strength of individual educator's waiting lists makes this impossible.
- Some FDC services are part of wider organisations that have allied health teams in place who can facilitate children, others have given their educators the name and email address of an Inclusion Professional to approach when issues of inclusion arise.
- There are barriers to inclusion in FDC;
    - Sometimes, but not often, educators feel they cannot take on a child with additional needs because they need to think of the needs of their entire group.
    - Sometimes they may need to terminate an enrolment where a child's needs are impacting their ability to provide the other children with safe care. There is no other educator in FDC who can look after the other children when one child needs their entire focus.

    - The limited size of each educator’s group can be a barrier in itself – many educators have long waiting lists and often only have the capacity to enrol siblings of existing children.
    - FDC educators operate independently, which presents a hurdle to inclusion. Integrating a child with additional needs often demands extra skills, training, and strategies, posing challenges for educators, regardless of a service's dedication to inclusivity. Given the workforce shortages affecting FDC as much as other sectors, services are hesitant to add further pressure or stress on their educators.

- The Inclusion Support Program itself also puts barriers to inclusion.
    - There are concerns about how adequate the FDC top up rate is and about the limit on hours an educator can receive it for.
    - The nature of the Family Day Care Top Up Funding is reported as a barrier by services when working with their educators. Specifically, they report that “for an educator to drop a child and access the top up they will earn less.
    - Some educators opt for this approach, while others find themselves in a difficult position of having to inform an existing family that they cannot accommodate all the required days because they are accepting one child less on certain days to include another child. In cases where educators charge rates higher than the FDC top-up rate (currently $12.72 per hour), they effectively incur a loss to include a child. Additionally, the time-limited nature of these situations presents a barrier. It's uncommon for children, except those with exceptionally high needs, to be approved for 8 hours a day. Consequently, an educator may receive the top-up for only 6 hours a day, displacing a child who could otherwise be present for 8-10 hours a day, resulting in a decrease in the educator's income.
    - Services also report that the exclusion of children with most levels of autism from this funding is also a barrier, when children on the spectrum are the children with high level support needs that most commonly request enrolment in FDC. Likewise for complex medical needs. FDC services think that the fact that there is no funding for the extra training their educators need for example when enrolling a child with a medical issue such as diabetes is also a barrier to inclusion.
    - Additionally, there's a concern regarding the complexity of the application process, particularly within the FDC setting. While the educator receives the financial benefit, it's typically the service that must invest time in preparing and submitting the application, with no compensation for this effort.
    - One of the first barriers that we note in NSW is that FDC services can have educators spread across several Inclusion Hubs – a FDC service may be in one area, but their educators may be across several different hubs. This can mean that the one FDC service needs to have relationships with multiple Inclusion Professionals. This can make it hard in terms of the service supporting their educators and getting consistent information. Some services would take on the role of liaison

between educators and Inclusion Professionals whereas others would expect their educators to directly contact the Inclusion Professional.

- This also presents a barrier to applying for Innovative Solutions funding. Some of our services have reported that when they operate across multiple hub areas, coordinating an application becomes excessively challenging.
- The next barrier is the SIP itself. FDC services generally see the SIP as a tool to access funding. Several of our members feel that the format is more geared toward centre-based services and feel it is a hard document to develop for a service that consists of many different educators who each have their own unique barriers to inclusion. It has been reported to NSWFDCA that services felt like they were bending the SIP format to fit their situation rather than it being an easy tool that allowed how FDC services operate to be reflected. At some level, services seem to be confused as to whether the SIP needs to be developed at the educator or at the service level. If it's handled at the service level, it becomes challenging to accurately reflect each care environment, particularly when some services may have as many as 150 educators.
- For FDC, the application process seems more geared towards an individual educator applying whereas it makes more sense for a whole service to address the barriers that they feel exist across all their educators. Family Day Care services are finding it difficult to complete all that is expected of them. Most have had to contract staff numbers after they lost Community Support Program funding. Because of this many see the application process for Innovative Solutions Funding as a barrier.

Response to **Information Request 5.1** (why not for profit providers have not expanded to meet the growing demand for ECEC - barriers and limitations)

There are a range of reasons why FDC services have not expanded to meet the growing demand for education and care.

Some of these reasons relate to why new services have not developed and others as to why existing FDC services have not expanded.

Why new NFP FDC services have not started.

Traditionally in areas such as NSW FDC services were started by local councils, charitable groups, or enthusiastic communities.

Local government is increasingly withdrawing from FDC provision and therefore would not be tempted to start new services because:

- they see childcare as the responsibility of the market
- they cannot see a way to operate an FDC service without heavily subsiding it – and they can no longer afford to do this
- some face pressure from local providers to exit the childcare markets
- some are scared of the increasing complexity of compliance for education and care services
- as educator numbers drop, so does service viability – councils are concerned about the need to subsidise a service in the future that is barely viable now
- councils are not immune to the bad publicity that FDC has received over the last few years and are thus wary of being tarnished by association.

Charitable organisations no longer have the funds available for the initial investment needed to start a FDC and are wary of long term viability and the increasing compliance load of FDC service provision.

Enthusiastic communities (i.e. those wanting to solve local supply shortages) face exceptionally complex application processes to become approved providers. NSW FDC Association has recently applied for approvals for two CCCF funded services and found the process exceptionally arduous and complex – and we already have extensive knowledge of the education and care services laws and Family Assistance Legislation!

Communities also face information shortages – ideally funded organisations could help communities wanting to navigate the application and start up processes. New services would also need access to funding to enable them to sustain themselves until viable.

Why existing FDC services have not expanded delivery.

Many FDC services are aware of pockets of their areas where there is unmet demand for education and care. The reasons they are not expanding their existing services are:

- Reduced willingness to take risks
- staff number contractions - once Community Support Program funding was withdrawn from FDC by the previous Coalition Government, services have generally had to cut co-ordinator and manager numbers to the bare minimum needed to function. The remaining staff are doing double the work so do not have the time to think about expansion or undertake the difficult work of recruiting educators in new areas.
- the requirement that all new educators must have a Certificate III before operating as an educator is a deterrent to mothers and other potential educators becoming FDC educators because they need to support themselves via other means while getting their qualification.
- The educator shortage itself presents a challenge. It is difficult to attract qualified educators to become FDC educators, especially when center based services can provide incentives such as free or low-cost education and care, along with wages above the industry award rates.
- The child swapping rule, introduced ostensibly to combat fraud in FDC, essentially excludes any potential educator who has a child in FDC or desires their child to attend a different FDC service. This is a significant disincentive in certain areas, leaving FDC educators puzzled as to why they are singled out among all educators to have their childcare options limited.
- Increased safety compliance - increasingly, those interested in being an FDC educator are understanding that the easiest way to do this in a manner where it can be compliant is to have a specific FDC space separate from the family's own living area. Those that do not have a garage that can be converted, fear the changes they will have to introduce to their home to become compliant.
- increases in the cost of living have diminished educators' willingness to take risks - general cost of living surges mean people are reluctant to leave guaranteed income jobs for those such as FDC that might not be able to provide the same income.
- NSW has a set co-ordinator to educator ratio with most services having this written as a condition on their licence. This is a disincentive to increase the number of educators because the service has to increase their co-ordinator numbers immediately – before the new educator is at capacity and can pay full levies to offset the cost of the new co-ordinator. In other words, it costs services to increase numbers – with budgets exceptionally tight, few can take this risk.

Response to **Information Request 6.5** (measures which would reduce CCS administrative complexity)

1. Eliminate the Activity Test! Explaining to parents why their CCS has just decreased dramatically increases the administrative load for services and FDC educators.

2. **Reduce the number of people that are considered People with Management and Control (Under both FAL and the Education and Care services Law) for community based services.** People on FDC Committees are volunteers. Asking volunteers to provide multiple and complex pieces of ID in order to allow them to sit on a committee is a big ask and acts as a disincentive for them to do so.

If for not for profit community based organisations, the service manager and the executive of the committee were considered to be PMCs and other committee members were not (as was previously the case), services would not have to use valuable time collecting this information.

Respond to **Information Request 9.1** (Benefits of broader funding reform including supply side funding)

If FDC was supply based funded, or if even FDC services had the supply based funding that was removed by the previous Coalition government restored, alongside CCS to parents, the following benefits would be realised:

1. **FDC services would be able to expand to meet supply as the barriers they currently face would be negated.** These include lack of time to recruit new educators, removing the additional co-ordinator disincentive, increasing organisational appetite risk and removing the need for services to levy educators to fund the service – this would enable FDC educators to have higher incomes and therefore make recruitment and thus expansion easier.
2. **The government would have a clear lever to require quality provision.** Removal or the threat of funding removal would be a powerful incentive to increase quality.
3. **The amount of time spent on administering Child Care Subsidies and levies would be eliminated allowing educators more time to spend with children.**
4. **It would arrest the decline of the FDC sector.** The FDC sector is declining – not just as fraudulent services are closed but because FDC services need funding to provide their vital function of monitoring and supporting FDC educators. Without this funding they can only survive by levying fees on educators. This is proving unsustainable as a way of operating FDC over time. It creates friction between FDC services and educators, it reduces services viability when they lose educators, and it has meant FDC services have had to reduce their employees which impacts their ability to properly carry out their functions and hinders their ability to engage new educators.