

# Response to Productivity Commission Draft Report

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September 2014

## Rationale

In framing this response, I have restricted my comments to a limited set of problems with those areas that deal with the broader questions of policy design and objectives. These include some basics such as the purpose of the policy options on offer and the options for relationships between the funder, provider and users of services.

My serious concerns include the following:

- Whether the proposals adequately address the issues that drove the setting up of this inquiry, which included the multiple problems of users, and potential users' ability to access services which were affordable and accessible. These deficits create barriers to increasing workforce participation of primary carers.
- The main constraint of government instructions that the costs remain within the current envelope, which means I welcome the draft report's suggestions that this limit needs revisiting.
- The rejection of funding children's services as part of universally accessible quality community services, i.e. the proposal that no subsidies be available to children whose primary carer has no employment related needs, or risk factors. Apart from the unfairness of excluding 'normal' children from subsidised access, the shift would impose stigmatising labels on those who most need to seek access to services.
- The assumption that certificate 3 competency based training is adequate for under 3s or nannies as these qualifications are designed for supported staff, not for those in charge, particularly sole charge.
- The very loose proposals offered under nanny subsidy options that do not mandate the appropriate quality controls that merit funding e.g. levels of supervision and support that protect children from inadequate care and workers from exploitation
- The wrong basic assumptions that services for children can, and do, fit a basic market model so offering 'choice' to parents means that services are there to meet their needs at appropriate costs, flexibility and quality.

I also support the critiques and proposals for changes offered by the Work and Family Roundtable and similar professional groups. However, I am adding one specific funding proposal below which both reflects my wider criticism of the loss of community contexts and particular interest in ensuring services that effectively serve non employment based needs eg for Indigenous users.

## Recommendation

**At a minimum, the final report should acknowledge the valid arguments for dual funding models: the demand market model, which may cover the majority of services, and a direct funding option for services that recognise community needs, that the market model fails to met. The final report, therefore, should propose and endorse dual funding options: the current majority demand version and a flexible supply side direct funding options.**

**Options for mixed funding can then be addressed with tailored funding options paid directly to those groups that have different needs. These would include Indigenous communities which currently run integrated children's services that meet community needs and priorities, rather than those of individual families.**

**This set of options will meet the range of needs identified by SNAICC and will also allow the funder and community flexibility via partial supply funding for particular needs to add to the continued albeit amended major funding model.**

### **The rationale and back up arguments**

The balance of this submission deals with the flaws in the funding assumptions that are offered to validate a single system of funding with some minor forms of adjustment. The need for a shift in funding model to a bifurcated funded system would retain the current parent focused demand funding model as the main system but recognises the flaws that create difficulties for many parents and communities. A second stream of ongoing direct funding for services would allow flexibility options which are better funded via direct accountability to the funder not the user. This change would fix the limits of funding of the child care and early education sectors via a general market model to allow for one to meet minority and diverse needs of parental and communities.

### **The origins of the current problems**

The difficulties of child care policies derive largely from our failure to debate and publicly decide the various purposes of the services and the rationale for its public funding. We need to articulate whose interests are served by the provision of the range of services included in the funding package and decide how it should be funded and paid for. This issue has not been adequately covered in the Draft Report, which generally assumes the funds are used primarily to subsidise a private purchase of services, somewhat regulated to ensure basic standards of care. The public purpose is limited to the presumed benefits of market roles of carers and the later benefits of quality care.

The forty year history of public funding shows policy shifts have not been appropriately defined or justified. When Phillip Lynch brought in the first child care funding at federal level in 1972, he clearly stated that its purpose was to fund part of the pay of qualified staff to ensure children received appropriate care/education at a vulnerable age. At that stage most kindergartens were community and or run by local councils, churches etc. As more and more women were joining the paid workforce, it was decided that funding for quality was essential. The increasing demand for services led the Whitlam government to set up a submission based system for applying for capital and recurrent funding to meet community needs.

Long day care was mainly community or welfare based, with a few locally run commercial services, usually run by someone with qualifications who wanted her own business. Under Hawke, the funding model was changed to a planning model that funded capital and recurrent costs for approved services on the basis of proven local need. Funding was split into an operational subsidy based on a proportion of an agreed budget and means tested fee subsidies for families, but only for not-for-profit services. Keating, in his enthusiasm for market models, then made a major shift by offering fee relief to parents using commercial services, then a minority of centres, and the numbers of commercial services grew rapidly.

This change to the market was continued and exacerbated under Howard 5 years later. The 'unfair' operational subsidy was removed as it was claimed to reduce market competition so

controls over the allocation of funded places on the basis of need were removed. Fees went up as these were also not controlled and a plethora of services were started. These were often in areas where there was no proven need, as more investors saw this service as a new cash cow. This almost casual shift means forty plus years later, the expanding community service program of the seventies has now been redefined as a market based model, which criticises the non profit services that fail to run a commercial type model.

### **What have we gained and lost in the process?.**

How should we define this group of services and what they should offer? For most of the history above and the decades of limited local services that predated it, children's services were clearly accepted as part of the community services sector, providing the range of social and developmental experiences that most children need to grow into competent functioning social beings. While some parents may meet enough of these needs, most children benefit by time and experiences away from parents and vice versa. Community services targeted for children create links and experiences that complement what their parents offer. They give children collective experiences with peers, with other adults and develop social competencies that are essential to being good people. At the same time, the parents/primary carers will have time for non child related activities including paid work. Essentially, the services meet the needs of both children and parents and, judging by reactions, most people continue to see children's services as part of community services rather than as commercial ones. .

However, the current official emphasis is clearly on child care as an economic service, which attracts funding primarily by facilitating parental entry into paid work, as well as improving future workers by remedying their developmental or social deficits. The fees are therefore subsidised by government under the assumption that parental demands will result in market responses of a suitable mix of affordable accessible diverse mix of services. The role of government is to set some standards so children will be safe and developed and to attract potential investors to offer needed capital investments.

Therefore, the regulatory process tends to focus on minimising costs and maximising the financial returns to attract investors in search of returns. As the customer is defined as the user whose funding is via a de facto voucher, albeit paid to the service, there is no incentive for the service to meet wider social priorities or needs. This assumption obviously underpins the current and major proposed funding option in the Draft Review paper.

However, the market has failed over nearly 20 years of market style funding to offer parents the diversity of services they require. There are oversupplies in some areas and serious shortages in others which suggest the need to revisit options for funding to ensure that these diverse needs can be met efficiently and effectively. We need to revisit the concept of a basic contract between provider and funder to determine the kind of service needed. In this way, those families with particular needs that are not being met and those communities whose needs are not primarily based on workforce participation should be able to find services that meet their needs.

This, as detailed above, was an alternative model of funding a service which involves direct support. This supply side funding was designed to meet a range of community as well as social/parental/child needs. Child care and separately preschools were government contracted and subsidised centres and family day care schemes. These were often designed to offer the mix of services to meet diverse local social, parental, child needs but the model was abandoned because neo-liberal policies had become fashionable

The remains of this option has continued offer limited funding that serves a range of Budget Based and other support for programs which need direct funding, These include isolated rural services, some 'disadvantaged' communities, and primarily Indigenous services. However, despite the Report proposing these funds be retained and even increased, this type of funding is apparently regarded as inferior and preferably short term.

The Draft Report language suggests that this type of funding is an inferior stop gap for those communities that lack the workforce attachment factor that will hopefully eventually allows their funding to be transferred partially or fully to the user pays model.

The view of this funding as neither core or crucial is shown in its description in Commissioner Craik's slides below:

***A capped Viability Assistance Program***

*Support providers (operating under child-based funding) when demand temporarily fall below financially viable levels*

*Maximum of 3 in every 7 years*

*Prioritised to centre based care & mobile services*

***Block funding for Disadvantage Communities Program***

*Short term grants to transition to mainstream funding where possible*

***Block grants***

*Start-up and sustainability payments where no viable labour market*

*Support development of more integrated ECEC & childhood services especially in disadvantaged communities*

*Payment to service for integration*

Therefore, the sense of this being a transient funding system should be removed. Rather than seeing this model as preferable short term funding, the final report of the Productivity Commission should recognize that this second type of funding needs ongoing legitimacy as a basic funding program that can meet the diverse needs of communities and particular populations that do not fit the worker market model.

This would allow the future funding model to offer continuing options for alternative forms of funding to assist some services to meet wider needs of their communities. This could include support funding for better integration of services for families, which may also require some additional funding resources.

**Particular problems with the market model**

The last near 20 years of market based provisions has seen considerable increases in expenditure, high fees and failure in too many cases to meet the demands of parents for flexible accessible affordable services. While there has been an increase in places available for children and higher use of services, this has not necessarily directly increased the participation rates of parents. There is some correlation but not clear growth.

On wider criteria, social disadvantage continues to divide children's experiences. The lack of wider community connectivity and commitments in the current and proposed market model is not helping ordinary parents who need support or children who need time out. At the same time, there are rising rates of reported child abuse and children being taken into care which suggest that more universalised community supports for children are necessary.

This raises questions on whether a range of universal services for children should be, integral to local communities. These should be based on the idea that parenting, even in 'normal' households, is not enough to meet needs for access to a range of non parental out of home based activities for children and carers.

The focus of the Productivity Commission report is primarily on the needs of the parents for time to engage in workplace related activities, while ensuring adequate care for their children. The brief needs to be wider so the funding system would allow for future direct funding of other services, including market failure to meet minority or expensive needs. This would allow funding mechanism for Government use, where it may be necessary to ensure that services it indirectly funds offer enough places where they are needed and when they are needed.

For example: many parents have serious difficulties finding services that don't close at 6 or 6.30, that have places for the under twos and/or that are affordable in the areas where they need them. Yes there are services that have vacancies but there are also many that have long waiting lists. The remedy for waiting lists offered by the PC is to raise fees till they become unaffordable to those on the list. However, extra funding options may allow the government to subsidise some centres to provide short supply services.

### **Details of an alternate funding and planning system**

The Government makes it clear that it is expecting options that make child care more affordable and accessible with an emphasis of flexibility to meet changing workforce patterns. Yet the proposed funding changes in the PC report are not likely to create more fluidity in the provisions of existing services. <sup>1</sup>Therefore the overarching policy needs to ensure that it does not exclude other options for creating more adjustments and even structural changes to future funding options.

The proposed changes offer a very limited set of options that will mainly affect fees and funding but are not likely to meet the range of issues raised by the identified mis-matches between parental demand and market based suppliers. The main option basically assumes a one size almost fits all approach, even though the current evidence is that many needs are not being met.

The alternatives that are outlined should be further developed and retained as core parts of the funding model. This builds on the PC proposals for funding non standard service types under the Block funding for Disadvantaged Communities Program, as this fund recognizes the need for supply side interventions for services that do not fit the paid worker parent model. The various evaluation have shown examples of the value of integrated Indigenous services which suggest that this model has potential wider applications for other communities where the emphasis is more social than economic in terms of outcomes.

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<sup>1</sup> Flexibility report <http://www.earlychildhoodaustralia.org.au/wp-content/uploads/2014/05/Going-beyond-9-to-5-to-help-working-families.pdf> The survey, conducted by the national children's peak body Early Childhood Australia (ECA) included over 400 long day care providers around Australia. The results show that 68% of long day care services opened between 6:30am and 7:30am. 49% closed at 6:00pm. 'Most long day care providers are open beyond traditional working hours, but it's clear that services are more likely to be open earlier, rather than closing later,' said ECA CEO Samantha Page. 'Less than 1% of services are telling us they close after 7:00pm, so shift workers and parents working longer hours may require other formal care options, like family day care or in-home care. The results show that 68% of long day care services opened between 6:30am and 7:30am. 49% closed at 6:00pm.

The proposed bifurcated funding model could be offered as optional for those communities that want to offer integrated services that enhance community and collective forms of care. This would cover rural communities that cannot support a standalone service and urban sub communities that require community building for a range of reasons. Services would be allowed to opt in to particular funding formula, as agreed, if they can show that the levels of social needs or particular local or cultural requirements override the market needs.

Therefore the Block funding option be redefined and extended as a part of an ongoing funding model, which allows for innovative options to be explored for meeting needs that may not fit the market model. While such a funding program may not be a current priority, any long term funding proposal should clearly accept that effective meeting of diverse needs may require both types of funding.

- demand side funding for the high demand areas, where quality, price and profit can be delivered with minimum interventions via a family subsidy
- partial or whole service supply side funding where the collective needs of the target groups are seen as a public priority and/or the services needed are not suitable or accepted for the demand model and/or fail to generate the needed services. Then a direct service purchase capacity is required.

This last approach would also satisfy the anxieties expressed by SNAICC on the Draft Report proposals. While the stated Commission intention remains to transfer these types of services, where possible, to the mainstream child based funding, SNAICC and other community groups have tried to point out how inappropriate the formula is for the types of holistic services that need centre base variable funding to meet complex needs. SNAICC raises these issues in its response <http://www.snaicc.org.au/news-events/fx-view-article.cfm?loadref=32&id=1518>

#### Appendix 1

Some quotes from SNAICC Deputy Chairperson, Geraldine Atkinson adds to case we make:

***Productivity Commission report: where is the blueprint for Aboriginal and Torres Strait Islander children and families?***

*SNAICC believes the Productivity Commission's draft report into child care and early childhood learning has some promising ideas, but fails to deliver a blueprint to improve access and participation of Aboriginal and Torres Strait Islander children and families in vital early childhood services. Principal among SNAICC's concerns with the report's recommendations are:*

- *By focusing on disadvantage as the main criteria for service eligibility, the proposed approach ignores the need to fund culturally-appropriate, Aboriginal and Torres Strait Islander specific care. Instead it assumes that through being 'culturally competent' all services can provide vital cultural nurturing and connections — something SNAICC strongly disagrees with. This approach ignores the powerful evidence on the importance of Aboriginal and Torres Strait Islander people having access to community-controlled and directed early years services.*
- *While we are heartened to see a \$39 million increase on the BBF funding, we caution against capping a program for which the inclusion criteria, scope and number of*

*potentially eligible services is not yet known. We question the rationale for leaving mainstream funding uncapped, but capping funding where it is needed most — in disadvantaged communities.*

- *The report also proposes that the Disadvantaged Communities Program not apply to services “where there is a viable labour market”. SNAICC has great concerns with this proposal: it assumes, wrongly, that the existence of a viable labour market equates to no community disadvantage or need for culturally appropriate services. The existence of a viable labour market doesn’t guarantee participation in that market — as many Indigenous job seekers will attest.*
- *The proposed model does not take into account an Aboriginal and Torres Strait Islander service that supports families with differing characteristics (and levels of disadvantage) — for example a service that has some working and some non-working families. It is not clear whether a centre such as this would be funded under the new Disadvantaged Communities Program, or the Early Care and Learning Subsidy, nor whether either of these approaches would be suitable.*

*In summary, the Productivity Commission doesn’t come to grips with the barriers that have prevented greater Aboriginal and Torres Strait Islander participation in early childhood education and care services. One barrier is the lack of services in many areas; another is that the mainstream model simply doesn’t work for many Aboriginal and Torres Strait Islander families.*

## **Appendix 2**

### **Advantages of a Supply model**

The following quotes from the Draft Report presents a strong case for the dual funding model proposed as it shows that the demand side model is neither the only, or even the best, options for funding. *The costs and viability of childcare operations* (p805 on) states:

*The alternative to demand-based funding is to fund some or all providers to supply ECEC services, usually to particular client groups. For the allocation of such funds governments usually set quality criteria and eligibility requirements for use of the services. In most supply-based systems families pay a fixed co-payment, and the government is effectively the purchaser of the services. This is the way dedicated preschools are funded in Australia. Families using supply-based services can still have choice of provider, but choice is limited to the providers funded by government.*

*Efficiency will depend largely on the governance arrangements to ensure quality and cost-effective supply, and in the allocation of places to services. Some submissions (such as Cox, sub. 189) argued that ECEC services are more efficiently delivered under government purchasing (or provision) arrangements. **This is not without basis as an OECD review concluded that supply-side funding mechanisms may lead to better outcomes for children and families:** (my bold)*

*The evidence suggests that direct public funding of services brings more effective governmental steering of early childhood services, advantages of scale, better national quality,*

*more effective training for educators and a higher degree of equity in access compared with parent subsidy models. (Family Day Care Australia, sub. 301, p. 6)*

*Supply-based funding is a feature of a number of international ECEC funding models such as in Ontario, Finland, Italy, and several Scandinavian countries (appendix I). In general, the model is used where services are provided at low or no cost to families. Hence, the OECD conclusion could be more due to the quantum of funding than the funding mechanism, although the government role in ensuring quality in the services that it pays for clearly matters. There may also be scale advantages in public provision of services, although supply-based funded services can, and often are, delivered by private and not-for-profit providers. ....*

*Supply-based payments to providers can be linked to projected demand, but most systems aim to make the service available at some defined scale. They may cover all or part of the provider's funding requirements (with the rest covered by co-payments or in some cases charitable funding), and are made usually under a contract with the relevant government agency.*