Key summary points relating to the Productivity Commission Draft Report on Childcare and Early Childhood Learning

Simplification of funding assistance and Options for children with additional needs

The Draft Report says that for a vast majority of families, government subsidies cover more than half of their fees. But it indicated that there were a number of problems: the system is very complex; there is a declining proportion of assistance going to lower income families and; assistance programs are not being well targeted.[1]

In an effort to address such problems, the Commission has recommended a number of changes including the simplification of the assistance programs by combining the following three funding streams into one:

- Current Child Care Rebate
- Child Care Benefit
- Jobs Education and Training Child Care Fee Assistance

All three are to be incorporated into a single child-based subsidy to be known as the Early Care and Learning Subsidy (ECLS)[2]

The new funding arrangement would come with the following changes to the current system:

- Paid to the Early Childhood Education & Care (ECEC) provider(s) chosen by parents;
- Contingent on each parent meeting an appropriate activity test, and cover a means-tested portion of the Government-determined 'deemed' cost of care by age for the chosen service;
- Capped at 100 hours per fortnight;
- Gap between subsidised amounts and actual price charged by the service met by parents;
- Services newly entitled to charge different hourly rates for different age children & for children with additional needs[3].

The report discusses the problem of what providers are actually charging parents.[4] The Commission refers to the ever rising costs to taxpayers because assistance under CCB and CCR has grown rapidly in recent years. This is particularly the case because the CCR is tied to the actual prices charged by ECEC providers. The system as it currently exists, allows families who pay the most to receive greatest benefit - leading to an inequity between lower and higher income parents.

In an effort to address rising costs to taxpayers and inequities in the system, the Commission recommends changing the way increases to subsidies are made. A 'deemed' cost of providing a reasonable standard of care is considered by the Commission to provide a more transparent basis

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[1] See p
[2] See Draft Recommendation, p 45- 48
[3] p. 20
[4] p. 22

for determining subsidies. The deemed cost of care would initially use a cost model, moving to a benchmark price within three years.[5]

The Commission proposes to include, in its final report, a refinement of the estimates of deemed costs and also recommends that the Australian Government reviews the new ECEC funding system and regulatory requirements after they have been implemented.[6]

In relation to children with additional needs, the Commission also recommends that there be access to a "top up" of the basic 'deemed' subsidy because the NDIS may not contribute to the cost of those needs:

> The extent to which the National Disability Insurance Scheme (NDIS) will meet the needs of children with disabilities when participating in ECEC is unclear to the Commission at this stage. However, the Commission's proposed ECEC assistance arrangements for children with additional needs is in no way intended to replace whatever support is provided under the NDIS.[7]

For findings and recommendations in relation to additional needs children and services, see pages 48 to 53 of the Draft Report.

Overall, the proposed redesign of current measures may assist in reversing the declining proportion of assistance going to lower income families who are least able to afford services; however, setting an appropriate 'deemed' rate of subsidy will need robust debate. The ASU believes that child care should be accessible to all working families. Changes should not be introduced where they further entrench inequities of service should the capacity of families to pay the gap be reduced under a new scheme[8].

Call for increased federal funding

Funding for Early Childhood Education and Care was $6.7 billion in 2013-14. If all the Commission's recommendations were adopted, the cost to government of the Commission's proposed arrangements would be around $8 billion a year. In that scenario, a high income earner would not be subsidised. For example, draft recommendations propose to cap subsidies at a combined income of $160,000 and remove some fringe benefits taxes.

The Commission finds that an increased allocation could come from the budget for proposed changes to PPL Scheme:

> A considerable number of submitters, the 2014 National Commission of Audit and various commentators, suggested that the Government direct at least some of the funding for its proposed Paid Parental Leave (PPL) scheme to ECEC assistance for families, to ensure continuity of support for working parents with young children. The Commission considers that it is unclear that the proposed changes to

[5] P46
[6] P22 & 62.
[7] p. 24
[8] Early Childhood Australia submission to Senate Education and Employment Legislation Committee, Inquiry into the Family Assistance Legislation Amendment (Child Care Measures) Bill (No. 2) 2014, p. 11: "The decline in value of the CCB has undermined the model services are providing to give children from disadvantaged backgrounds access to early childhood education and care, and the proposed CCB measure will exacerbate the existing structural problems. As these families do not have access to CCR, they are fully exposed to reductions in the CCB amount."

> the Paid Parental Leave scheme — which is more generous than the existing scheme and that recommended in the Commission's 2009 report on paid parental leave — would bring significant additional benefits to the broader community beyond those occurring under the existing scheme. There may be a case, therefore, for diverting some funding from the proposed new scheme to another area of government funding, such as ECEC, where more significant family benefits are likely. Such a move could add up to a further $1.5 billion per year to Australian Government assistance for ECEC.

However, new services could come at the expense of funding to existing services. Kate Ellis, Shadow Minister for Early Childhood explains:

> Any new programs for families, such as subsidies for nannies, can only be funded through cuts to the existing child care services that families rely on every day and I know many would be deeply concerned about this,
>
> Tony Abbott said he commissioned this report to look at ways to improve child care affordability, yet his own Government has already announced over $1 billion in child care cuts.
>
> Right now the Abbott Government has legislation before the Parliament which has the sole purpose of cutting child care assistance for low and middle income families, including those on as little as $42,000.[9]

Pre-school - supporting universal access

Recommendation to ensure ongoing support to States to provide universal access to preschool for 4 year olds; however, differences across jurisdictions and the impact that has state by state is acknowledged.

To address the absence of funding in some states for universal access to preschool, revision of regulatory settings are advisable. (We note that currently in NSW, Long Day Care providers are delivering preschool services without funding that is granted in other states.)

Recommendations in relation to funding for preschools are found p53-54

Measures to increase workforce participation

The Commission explored the problem of childcare access issues having an impact on the ability of people to work.

> Roughly 165 000 parents (on a full-time equivalent basis) with children aged under 13 years would like to work, or work more hours (most of them part time), but are not able to do so because they are experiencing difficulties with the affordability and availability of suitable early childhood education and care (ECEC) services.

The report makes some key findings about the limits of the ECEC sector alone being able to resolve issues related to workforce participation of predominantly female primary carers. Currently, about 62% of Australian women return to their job after the birth of a child. This is well below the OECD average of about 68% and well below other OECD leaders on Child Care.

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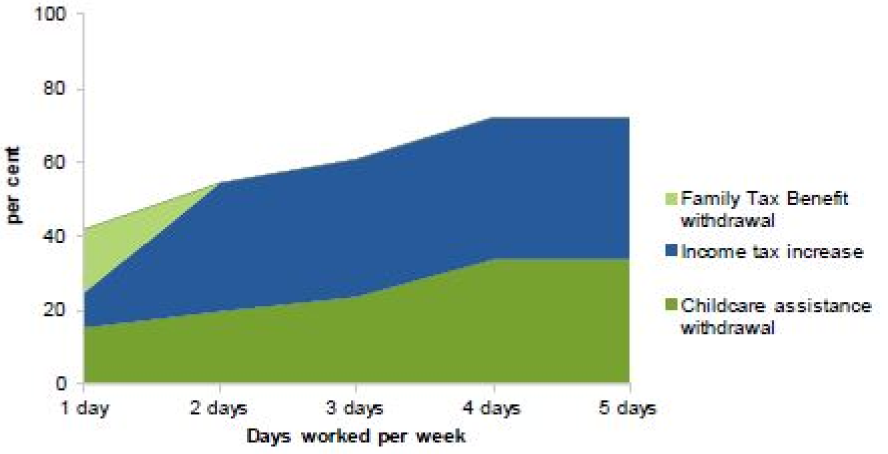
[9] Television interview PVO Newshour, Sky, 22/07/2014, *Productivity Commission Draft Child Care Report*

Recommendations, according to Commission modeling, could increase labour participation by an estimated 0.4% - an extra 47,000 full time workers. The Commission highlights the shortcomings of recommended improvements to ECEC sector to an improvement on GDP of 0.4%. This is because the findings show that the availability of ECEC services is not the sole driver for improving workforce participation of women. The findings are articulated in a few pertinent paragraphs and Draft Finding 6.5 from the Overview:

i. Current Australian Government assistance to families creates a strong disincentive for some parents to enter the workforce or to increase their hours of work. For some second income earners (usually mothers) who return to work and use ECEC, the combination of a drop-off in family tax benefits once family income rises, increasing income tax rates, and reduced ECEC assistance at higher income levels, can result in an effective marginal tax rate of close to 100 per cent, particularly once work exceeds 3 days per week (figure 3). However, despite high effective marginal tax rates in the immediate future, parents (often those more qualified or with a career path) may continue working as they anticipate longer term private benefits from maintaining attachment to the workforce.[10]

Figure 3 Example of effective marginal tax rates[a]



[a] Represents a couple family with three children, one in outside school hours care and two in long day care, as per 'family 2' in Box 3. [11]

ii. While there are some parents who cannot afford to access ECEC services that would benefit their child, it appears that more commonly, parents may cut back on their child's use of ECEC in order to keep their out-of-pocket costs below the CCR [Child Care Rebate] cap. Only around 5 per cent of families reach the $7500 cap per child on CCR contributions to out-of-pocket costs, and most of these use ECEC in central Sydney or Canberra and/or have children in care over 40 hours per week.[12]

iii. The workforce participation of mothers is affected not just by the out-of-pocket costs and availability of suitable ECEC services but also by the preferences of mothers, which in turn can be affected by such factors as the stresses of managing paid and unpaid work at home and, in couple families, the support of partners. Other important determinants are the availability by employers of flexible work and other family-friendly arrangements, and the effective marginal tax rates facing second income earners in couple families and low income single parent families.[13]

[10] p. 6
[11] p. 9
[12] p. 13
[13] p. 57

For Findings and Draft Recommendations in relation to Workforce Participation, see Pages 57 and 58 of the Draft Report.

Removal of assistance for some providers

The Commission appears to want to accelerate involvement of market forces in the provision of childcare services. This is reflected in recommendations which include the removal of tax exemptions from not-for-profit providers.

See Draft Recommendations p 55 to 56.

Weakening of NQF standards

There is the potential for some recommendations to weaken NQF standards. For example, the Commission recommends removing the Diploma qualification from the National Quality Framework (NQF).

Predictably, employers support recommendations that have tried to address paperwork requirements of NQF. However, An ASU Survey in 2012 highlighted member concerns about the impact paperwork can have on time to provide quality care.

In a 22/07/2014 ACECQA[14] Media Release, it was stated: "The Productivity Commission's draft report provides advice on ways to improve efficiency around the NQF and says that simplifying the National Quality Standard (NQS) would have a direct measurable benefit to providers, educators and state and territory governments in reduced paperwork, compliance costs and administration overheads."

Short list of other proposals:

- Proposed simplification of the National Quality Standard (NQS) with direct measurable benefit to providers, educators and state and territory governments in reduced paperwork, compliance costs and administration overheads.
- Removing the requirement for degree-qualified educators for children under 3 years of age.
- Removing the requirements for diploma qualifications.
- Allowing centres to operate below current educator-to-child ratios in some circumstances.
- Regulatory and other barriers would need to be removed to extend childcare availability over nonstandard hours, given the prevalence of employees working shifts, on weekends and at other non-standard hours.

With regard to nannies, the question of how to appropriately regulate the sector and reduce regulation at the same time is confusing

Many of the Commissions Draft Recommendations relating to the the National Quality Standard are included in the section on 'Quality assurance processes and regulation of ECEC' - see pages 58 to 61.

[14] Australian Children's Education & Care Quality Authority

Pay, conditions and training

Whilst the Draft Report discussed low wages and conditions of workers there seems to be an absence of recommendations in addressing this. Commission notes from 11.2[15]

- A career structure that does not adequately reward staff with higher qualifications or greater experience
- Insufficient non-contact hours to complete curriculum, programming development and observation requirements (exacerbated by the introduction of reporting requirements under the NQF) and an expectation that staff will undertake some of this work unpaid in their own time
- Insufficient sick leave and other non-wage entitlements, given the nature of the work environment
- Limited opportunities for employees to undertake further training or study in paid time
- Workers having to pay for various education and care materials themselves.

With respect to vocational training, the Commission findings raise shared concerns about variable training for Certificate III & IV educators from Registered Training Organisations, highlighted by a current review by Australian Skills Quality Authority:

> The Australian Skills Quality Authority (ASQA) is currently conducting a review into early childhood development workforce training, including audits of Registered Training Organisations (RTOs) delivering relevant Certificate III and diploma qualifications, prompted by concerns raised by the Commission…[16]

[15] p. 472
[16] p. 495