



Fair Start: 10-point plan for early childhood education & care

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In Australia Early Childhood Education and Care (ECEC) is provided both in families and the community and policy needs to support the nurturing of children in each of these settings.

This paper analyses primarily the formal child care and preschool services provided to children from birth to the year before school (0-4 years old). It makes ten recommendations to improve access to high quality early childhood education and care services for all children and place the child care industry on a more stable and sustainable footing.

The Australian Government has promised parents further child care assistance in the 2006 Federal Budget. In doing so, it needs to make the system simpler and fairer while helping to ensure that the quality of education and care provided is of a high standard.

It can do this by building on the success of Child Care Benefit (CCB) which, in the words of the Government at the time CCB was introduced, 'provides for significant increases in assistance for many families, particularly low income families, and greatly simplifies arrangements for claiming assistance.'¹

ACOSS is particularly concerned that children from socio-economically disadvantaged backgrounds are able to access high quality early childhood education and care. Research has shown that these services disproportionately improve the social and educational outcomes for disadvantaged children. And it is important to ensure that these children are not allowed to fall further behind their more advantaged peers prior to entering primary school because of lack of access to good quality ECEC.

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Australian Council of Social Service
Locked Bag 4777 Strawberry Hills NSW 2012
Ph [02] 9310 4844 Fax [02] 9310 4822
www.acoss.org.au

¹ Department of Health and Family Services, Government Response to the Senate Community Affairs References Committee Report on Child Care Funding, December 1999, p. 1.

With the introduction of the 30% Child Care Tax Rebate (see Appendix D) and the recent canvassing of proposals to allow pre-tax salaries to be sacrificed to pay for child care and extending Fringe Benefit Tax exemption to all employer-sponsored child care, Australia is at risk of creating a two tiered child care system.

On the top tier would be a high-quality system for the children of wealthy families who stand to gain most from using child care costs as a way of minimizing the tax they (or their employers) pay. On the lower tier would be a system of diminishing quality for low and middle income families who rely primarily on Child Care Benefit (CCB).

It is worth remembering in this debate that the primary objective of the child care and preschool system should be to promote the well being of all young children and their future development and functioning as older children and adults. A system which provides high quality early childhood education and care also achieves the second main objective of the formal child care and preschool system, which is that of enabling parents to balance their family responsibilities with participation in the social and economic life of the community.²

In summary ACOSS's main recommendations are:

- Publishing a Schedule of Government-Recommended Fees for services so parents can compare costs and quality of different service providers.
- Replacing the 30% Child Care Tax Rebate with a 30% Child Care Benefit Guarantee so all families will be paid at least 30% of the government recommended fee for services. Many families will be entitled to much higher levels of support to meet child care costs (with up to 85% being paid to lowest income parents).
- Providing 20 hours a week of State-funded Free Preschool Education for all children in the year before school, with the Australian Government extending CCB to all other preschool hours.
- Building a better planning system for early childhood education and care that identifies and responds to demand across all areas of Australia.

Details of recommendations are found in the boxes below and are grouped in sections addressing the four major problems facing early childhood education and care in Australia. These are:

- 1) Variable quality of early childhood care and education.
- 2) Access to early childcare and education.
- 3) Children missing out on a proper pre-school program in the year before school.
- 4) The cost of child care, which is increasingly prohibitive for some families.

² *A note on terminology:* It is increasingly accepted that the distinction between care for young children and the education of young children is a false one and that good quality early childhood services provide both. This paper uses the term early childhood education and care to include all arrangements providing care and education for children under compulsory school age regardless of setting, funding, opening hours, or programme content. However, the paper also uses the terms childcare and preschools because the system is still organized around these service types and it is necessary to be precise when describing the system and the proposed reforms to different parts of the system.

1) Quality of early childhood care and education

The provision of good quality Early Childhood Education and Care (ECEC) is expensive. It requires appropriately designed facilities and equipment and a properly trained and supported workforce.³ International evidence shows the quality of child care is also measurably higher in non-profit child care centres than for-profit centres because of their greater orientation to development of children.⁴

Simply allowing the market to provide child care services would put high quality services beyond the financial reach of all but the wealthiest families, with cheaper and lower-quality services meeting the child care needs of the majority of families. An equitable and high quality ECEC system therefore requires substantial and sustained public support.⁵ Governments in Australia have long recognized the need to subsidise the cost of child care for most families and to ensure that a balance is struck between the setting and enforcing of quality standards and the cost of services.

However, despite the regulations and procedures governing the quality of ECEC in Australia (see Appendix D) the very rapid and unplanned expansion of childcare services in the last decade, accompanied by a history of poor pay and conditions for childcare workers, has put enormous pressure on the system to deliver places while guaranteeing good quality care.

Perhaps as a result of these pressures, the enforcement of quality standards has not been particularly strong. Childcare centres are visited only every 2 ½ years by inspectors from the National Childcare Accreditation Council for the purposes of validation and accreditation, and visits are pre-planned with the service.⁶ Even where a centre fails accreditation, it can still operate as an approved childcare provider and parents can continue to receive CCB.⁷ The previous Minister for Family and Community Services, Senator Kay Patterson, was concerned enough about the enforcement of quality standards to suggest spot checks and establishing benchmarks or standards grading for each centre.⁸

The other fundamental problem in relation to quality is that the Australian Government's \$1.7 billion subsidy to the childcare industry (CCB) is not linked to the actual cost of delivering the service and there are no viable mechanisms to ensure that the money is being used to sustain or increase service quality. This means that if child care providers increase fees to cover the cost of delivering the service, the gap between the value of CCB and the fee charged is met by families (the value of CCB is only increased annually by Consumer Price Index). This creates a trade off between the affordability of ECEC for families and the delivery of good quality services.

³ It is recognized that the quality of ECEC services is strongly related to the training and experience of staff. See Fleer M. *An early childhood research agenda. Voices from the field*. Canberra: Department of Education, Training and Youth Affairs, 2002.

⁴ Adele Horin, 'Better child care at non-profit centres' *Sydney Morning Herald*, 9 February 2006, p.8.

⁵ OECD (2001) *Starting Strong: Early Childhood Education and Care*, <http://213.253.134.29/oecd/pdfs/browseit/9101011E.PDF>, p.85.

⁶ Jason Dowling (2004) Corporatised Child Care to Face Scrutiny, *The Age*, 6 December 2004, p. 1.

⁷ The Chairman of the National Childcare Accreditation Centre was reported in 2004 as saying that if a centre failed accreditation on three consecutive occasions it was 'more than likely' the benefit payment would be removed. [Dowling (2004) p.1.]

⁸ Dowling (2004) p.1.

It also means that the child care industry, which in the case of Long Day Care services is dominated by private for profit operators, can profiteer from the subsidy with no obligation to use the subsidy to increase quality. From 1 July 2006, the 30% Child Care Tax Rebate (CCTR) will provide further subsidies to the industry with a substantial risk of inflating child care prices with no return in the form of increased quality.

Solutions

There are two needed actions to improve the quality of early childhood education and care. First, the Australian Government needs to improve the enforcement of quality standards in Long Day Care and link satisfactory performance to approval for payment of CCB.

Recommendation 1 – Introduce spot checks for child care providers

The Australian Government should introduce unannounced spot checks as part of the national accreditation system to strengthen the current validation and accreditation process. Penalties for non-compliance should be predictable and consistent.

Second, the Australian Government should explicitly use its subsidy to purchase quality by linking the level of the subsidy to the actual cost of providing ECEC. Governments, unlike individual service users, are in a unique position to negotiate on behalf of the community the price of good quality care with the child care industry. Governments have the requisite legislative and spending power and can overcome the information asymmetry which typically exists between human service providers and individual consumers in assessing the quality of a service and value for money. Linking public subsidies to the actual cost of providing good quality care also provides a firm resource base which will promote stability and predictability in the industry and upon which the long term development of the ECEC workforce can rest.

Recommendation 2 – Introduce a schedule of government-recommended fees for services

The Australian Government should enter negotiations with representatives of the non-profit and for-profit child care industry (with input from consumers and early childhood experts) every three years to establish the hourly unit cost of providing good quality early childhood education and care services.⁹ The unit cost would reflect the cost of appropriate staff to child ratios and employment of properly trained and paid staff, as well as the average costs of capital and infrastructure.

On the basis of these negotiations, the Australian Government should publish a schedule of government recommended fees for Long Day Care (LDC), Family Day Care (FDC), In Home Care (IHC), Occasional Care (OC) and Outside of School Hours Care (OSHC) which reflect the actual cost of providing that care. Parents would be provided with a schedule of fees before enrolling a child in a service and at the beginning of each year thereafter to assist them in judging quality and value for money of early childhood education and care services. The schedule would include the criteria upon which the fee is set and be accompanied by a copy of the service's Certificate of Accreditation and Quality Profile Certificate.

⁹ It is recognized that the cost structure for services vary according to location. Recommendation 5 is designed to compensate services which operate in high cost areas and the value of CCB does not reflect the actual cost of delivering the service.

Services would be free to charge above or below the schedule fee but CCB would be linked to the schedule of fees and not payable on any amount charged above the schedule fee. Prior to negotiating the schedule of fees with the industry, average fees currently charged by each service type should be used as an indicator of the actual cost of care (see also Recommendation 9 and Appendix A for indicative fee schedule).

2) Access to early childcare and education

The current provision of early childhood education and care in Australia occurs across a wide range of service types. This is a real strength of the Australian system - offering, at its best, care and education in settings which are appropriate to the developmental needs of the child and which offer a reasonable degree of choice to families so that children can be cared for in an environment which reflects the preferences of individual families.

However, the lack of coordination between what may loosely be called the early childhood education and care system and weaknesses in the national planning system have combined to deliver patchy provision of services in some areas and a system that is seldom easy for families to negotiate.

There is poor integration between Commonwealth administered child care and state administered preschool education. There is also poor coordination between Commonwealth supported childcare services. This is most obvious in the case of Long Day Care Services which are not subject to planning controls or the place allocation system which applies to Outside School Hours Care, Family Day Care, Occasional Care and In-Home Care.

The current shortage of child care places in some areas and oversupply in others suggests the current planning system is struggling to manage a fair and sustainable expansion of ECEC and meet priority demands.¹⁰

Most fundamentally, basic data on unmet need is limited and the process for allocating places is opaque and inconsistent. The latest ABS data on unmet demand for places is from 2002. The ABS estimated that the majority of children (94%) required no additional formal care in terms of places or hours. Additional care was required by 6% (174,500 children) - with the main types of additional formal care reported as required being before and after school care (47,800), long day care (46,300) and occasional care (37,600).¹¹ However, the figures for required additional care are likely to be conservative because the survey question was phrased in such a way that if a family wanted additional hours or a different form of care which was not available, then they were recorded as not needing additional care.

The most commonly reported reasons for not using formal ECEC relate to access. Over 61,000 children in June 2002 could not access services because all the services were booked; 30,000 children could not access services because of the expense of these services; and 22,000 children could not access childcare services because there were no services available in the area.¹²

¹⁰ Australian Institute of Health and Welfare (AIHW) (2003), *Australia's Welfare 2003*, Canberra, p244

¹¹ ABS (2003) *Child Care Australia*, 4402.0, p. 6.

¹² ABS (2003) *Child Care Australia*, 4402.0 p.32.

The Commonwealth Department of Family and Community Services does not officially measure unmet demand for Long Day Care places. CCB supported places in Long Day Care are uncapped and it is assumed that LDC operators will identify areas of unmet demand and supply the needed services.¹³

Unmet demand for Family Day Care, Outside School Hours Care, Vacation Care and In-home Care is measured by the number of places requested by existing services, and is thus a limited measure. In areas with no services, or services which are already operating at capacity, there is no way of capturing unmet demand.

Nevertheless, according to this measure of unmet demand there were:

- 2,561 places required in Family Day Care
- 17,158 places required for Outside School Hours Care
- 10,963 places required for Vacation Care
- 761 places required for In-home Care.¹⁴

Currently, parents, childcare operators, MPs and the media all cite access to child care as a major problem.

There are also accessibility problems for specific population groups and in particular for Indigenous children and children with disabilities.

Aboriginal and Torres Strait Islander children remain significantly under represented in all forms of Commonwealth funded child care. In 2003, fewer than 5,000 Aboriginal and Torres Strait Islander children aged 6 weeks to 5 years old were participating in centre based child care throughout Australia. Whilst Indigenous children comprise 4.2% of all children aged 0-12 they make up only 1.5% of the children aged 0-12 in Commonwealth funded child care.

Of those Aboriginal and Torres Strait Islander children who do participate in Commonwealth funded child care, almost half access child care in a service or program that is funded directly by the Australian Government for their local area and therefore do not use CCB.¹⁵

Children with a disability under the age of 12 comprise 8.2% of the total population of children under 12, but only 2.1% of children in Australian Government approved child care.¹⁶ The Australian Government currently provides extra payment to family

¹³ However, the Commonwealth provides support to assist in the establishment of Long Day Care Centres in areas where there are no existing services and an LDC provider wishes to establish a service. The Long Day Care Incentive scheme provides assistance with the start up costs for the establishment of services in rural and outer metropolitan areas where child care operators have identified high unmet demand but cannot fully meet the costs of recruiting staff, advertising and the purchasing of toys and equipment as well as general viability funding for up to two years.

¹⁴ Senate Community Affairs Legislation Committee, *Answers to Estimates Questions on Notice*, Family and Community Services Portfolio, 2003-04 Budget Estimates, 4-5 June 2003, Question No: 163, http://www.aph.gov.au/Senate/committee/clac_ctte/estimates/bud_0405/vol5_facs_feb05.pdf, p.258.

¹⁵ SNAICC (Secretariat of National Aboriginal and Torres Strait Islander Child Care), 2003, Senate Community Affairs Legislation Committee, *Answers to Estimates Questions on Notice*, Family and Community Services Portfolio, 2003-04 Budget Estimates, 4-5 June 2003, Question No: 163 Response Paper for the Broadband Redevelopment, http://www.snaicc.asn.au/news/pdfs/response-paper_apr-2003.PDF, p.8.

¹⁶ SCRGSP (Steering Group for the Review of Government Service Provision) 2006, *Report on Government Services 2006*, Productivity Commission, Canberra, 14.17

day carers and in-home carers who care for children with ongoing high support needs. It also provides funding to child care services for additional staffing, advice, resources, training and equipment to assist access and participation of children who have a disability in child care. However, both of these programs are capped programs and eligibility does not mean automatic entitlement to the subsidies.¹⁷ This is not expected to change when these programs are replaced by the new Inclusion Support Subsidy (from 1 July 2006).

Solutions

The solutions to the accessibility problem are to improve the information base on which planning decisions are made, reform the planning process and link capital and operational support to areas of identified priority need.

Recommendation 3 – Establish a National Planning System for ECEC

The national planning system for childcare services should be reformed with Long Day Care services being brought back within the national planning system. This would form the basis for better integrating and coordinating different ECEC services and matching the mix of services to local area demand.

Recommendation 4 – Establish a National Demand Model for ECEC

A transparent national demand model should be developed which uses common criteria and is based on existing demographic and planning data at the Commonwealth, State and local government level. The establishment of new services and the expansion of existing services would be subject to planning decisions based on this data.

Recommendation 5 – New funding for ECEC services where demand is unmet

To respond to demand identified by the National Demand Model (Recommendation 4) individual Commonwealth/State agreements should be established to pool existing funds for capital and operational support for ECEC services in areas where services are expensive or difficult to establish or where there is significant unmet demand.¹⁸ The Commonwealth should substantially increase its level of overall support.

Planning Advisory Committees in each state and territory should be reformed and expanded to take responsibility for distributing funds according to the National Demand Model and the Commonwealth/State agreements.

Cost (to Commonwealth): \$130m in 2006/7

Recommendation 6 – New funding for unmet demand for services to Indigenous children

Establish an additional 35 community based Indigenous child care services to meet already identified need in Indigenous communities and boost the participation of Indigenous children in early childhood education and care.

Cost: \$15 million in 2006-07

¹⁷ Department of Family and Community Services (2005), *Child Care Service Handbook 2005*, Canberra, p.35.

¹⁸ That is, where the CCB fee schedule does not adequately cover costs in particular areas.

Recommendation 7 – New funding for support for services for children with disabilities

Expand the newly established Inclusion Support Subsidy for children with special needs so that all children who are assessed as eligible due to their disability are entitled to this support for quality ECEC.

Cost: \$15 million in 2006-7

3) Access to preschool education

Whether provided in dedicated preschools or in day care centres (properly understood, they are all part of the one system) a quality preschool education sets the foundations for cognitive, physical, emotional, social and language development.

While preschool education is an important experience in itself, it also provides children with an invaluable foundation for their entry into formal schooling. It is often essential in terms of the detection of impediments to learning, which if not attended to could affect a child's learning potential for the rest of their life. Research has shown that the benefits of a quality preschool education can be long-lasting, through school and into adult life. Preschool is especially important in reducing intergenerational poverty and disadvantage.

Despite the clear benefits of high quality preschool programs, the coverage and extent of preschool services in Australia for children in the year before school is not universal. It is estimated that 83.4% of Australian children are attending State and Territory funded and/or provided preschool services in the year before school for an average of 11 hours a week.¹⁹

Recommendation 8 – State & Commonwealth guarantee funding for preschool education

State and Territory Government should guarantee 20 hours a week of free preschool education for all children in the year before school and be solely responsible for funding these. In return, the Commonwealth should approve all other preschool hours in all settings (above and beyond the 20 hour guarantee for children in the year before school) for the purposes of CCB. This would be phased in over the next five years.

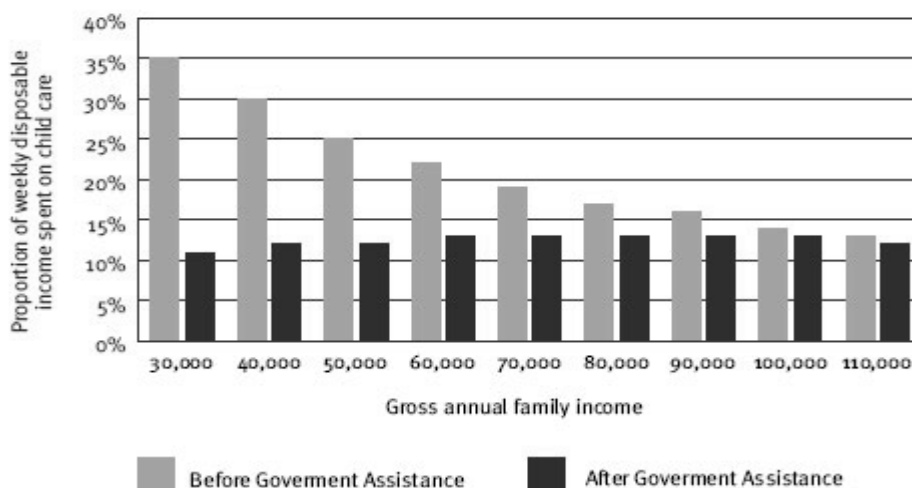
Saving (to Commonwealth): \$45m in 2007-08

4) Affordability of early childhood education and care

Since 2000, the Australian Government has relied on Child Care Benefit (CCB) as the primary means of subsidizing the cost of child care for the majority of Australian families. Child Care Benefit is a means tested payment available to families that have children in approved or registered care.

As the graph below illustrates, CCB is progressive, delivering proportionally more assistance to lower and middle income families (who struggle most to afford child care) than to high income families. The administration of CCB is robust and well-established.

¹⁹ SCRGSP (Steering Group for the Review of Government Service Provision) 2006, *Report on Government Services 2006*, Productivity Commission, Canberra, 14.11



Source: Department of Family and Community Services, *Annual Report 2004-05*.

The most significant weakness in CCB is that the value of CCB is not linked to the actual cost of providing child care. This means that as child care costs rise, the relative value of CCB (which is only indexed to CPI) declines and the out-of-pocket costs faced by families rise to meet the ‘gap’ between the CCB entitlement and the fees charged by child care providers.

In comparison with other countries, Australian families make a relatively high contribution to the cost of care.²⁰ Families are now paying a substantial proportion of total ECEC costs in Australia. They contribute approximately \$2 billion per annum to Long Day Care, Family Day Care and Outside School Hours Care (or 54%) of which \$1.8 billion is contributed for children aged 0-4 in Long Day Care and Family Day Care. The Commonwealth’s contribution to Long Day Care, Family Day Care and Outside School Hours Care by comparison is \$1.7 billion (46%).²¹

Median gap fees are estimated to be \$50 per week for Long Day Care, \$27 per week for Family Day Care, \$13 per week for preschool services and \$22 for Outside School Hours Care.²²

Child care costs have risen by 49% above inflation between 2000 and 2004²³ and it is families who have had to meet these increased costs because the value of CCB only increases annually by the headline inflation rate.

This growth in gap fees is particularly difficult for low and middle income families because the lower a family’s income, the greater the proportion of disposable income used to pay for child care and the lower the capacity to pay gap fees.

Not surprisingly, recent data shows a steady decline in the affordability of child care services. Between 2000 and 2004 the affordability of community-based and private

²⁰ Powlay, J. ‘Child Care Affordability’ *Australian Institute of Family Studies Conference Paper 2000*, p.8.

²¹ Calculations are available on request.

²² Calculations are available on request.

²³ Price Index for Child Care minus headline CPI: 6401.0 TABLE 7E. CPI: Household contents and services, Weighted Average of Eight Capital Cities.

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Dec%202005?OpenDocument>

long day care centres declined for all family types except couple families earning 2.5 times AWE.²⁴

Of all family types, sole parents who were not working but who were receiving the Parenting Payment, spent the highest proportion of their disposable income on child care. In 2004, the cost of child care was almost 14% of disposable income for this group.²⁵

While, at an aggregate level, declining affordability has not appeared to affect the growth in demand for child care places, middle income and lower income families are struggling to afford childcare while people on higher incomes are able to absorb and sometimes drive rising costs. The Government has recognized the problem of the growth in gap fees for child care with the introduction of the 30% Child Care Tax Rebate (CCTR). The principle of covering a percentage of child care costs is a good one, but the CCTR is the wrong solution for five reasons:

1. *It is regressive.* CCTR operates in tandem with CCB (a person must be receiving CCB to get the CCTR) and because CCB provides more assistance with child care costs to low income families than to high income families, it necessarily follows that families with the largest out-of-pocket expenses (for which CCTR can be claimed) will be those on higher incomes. The CCTR is a non-refundable tax offset that can only reduce a person's tax liability to zero. This is of no assistance to low income families with low or zero income tax liability.
2. *There will be long delays in claiming the benefit.* Families will not receive any benefit from CCTR until they complete their 2005-06 tax return, even though it applies to out of pocket child care costs incurred from 1 July 2004. The design of the CCTR also benefits higher income families because these families find it easiest to meet the costs of child care upfront and to claim the rebate later.
3. *It is inflationary.* The Government has acknowledged that a portion of the rebate might flow to the profits of child-care operators, rather than parents.²⁶ The CCTR places no obligation on child care operators to provide better access to services or improved quality in return for the money that will flow into the industry as a result of the CCTR. The value of the CCTR may be eaten up entirely through an increase in child care fees, without any real benefit to children or their families.
4. *It creates a two-tiered system.* The CCTR could lead to the emergence of a two-tiered system for low-income people who rely mainly on CCB and high-income people who benefit from the tax rebate. Providers may begin to specialise in more profitable niche markets for those who can afford to pay assisted by the tax rebate.²⁷

²⁴ AIHW (2005) *Australia's Welfare 2005*, Canberra, p.96.

²⁵ AIHW (2005), *Australia's Welfare 2005*, Canberra, p.96.

²⁶ John Garnaut, 'Budget Windfall: up to \$2000 extra in child care rebate', *SMH.com.au*, 21 December 2004, <http://www.smh.com.au/news/National/Budget-windfall-up-to-2000-extra-in-childcare-rebate/2004/12/20/1103391703597.html>

²⁷ Peter McDonald, 'Rebates for the wealthy may be an awful waste of child care cash' *Sydney Morning Herald*, 29 September 2004, p.15.

5. *It is complex.* CCTR imposes a new and complex system on top of the existing CCB system for reimbursing child care costs. It places significant administrative burdens on families who will need to keep all child care receipts in order to claim the rebate a year after the costs have been incurred.

Solutions

The affordability problem can be overcome by linking CCB to the actual cost of ECEC services while retaining the strong progressiveness of the CCB system (see Recommendations 1 & 2). The ACOSS recommendations will also contain the price of child care over time because CCB would only be payable on the government recommended schedule fee. Service providers would have to justify to families any significant price increases or decreases from the government recommended fee. This type of arrangement (which worked well in controlling price under the original Medicare system) strengthens public disapproval of excess charging for services and also exerts budgetary control over costs of child care and education.

This is unlike the 30% Child Care Tax Rebate which promotes price inflation as child care providers are encouraged to increase gap fees. This will lead to problematic growth in gap fees for low and middle income families who stand to gain nothing, or very little, from the 30% rebate because their tax liability is zero or very low.

The ACOSS recommendations also simplify the system for parents. Unlike the 30% Child Care Tax Rebate, our recommendations will not require parents to: understand the complicated interaction between CCB and the Child Care Tax Rebate, keep all their child care receipts and pay upfront and receive the benefit a year after the costs are incurred or once children have left early childhood education and care.

Recommendation 9 – Replace the Child Care Tax Rebate with a Child Care Benefit Guarantee

The 30% Child Care Tax Rebate should be abolished and replaced with a 30% Child Care Benefit Guarantee. All families using approved child care would be entitled to at least the minimum rate of Child Care Benefit which would cover 30% of the recommended government fee for each child in care. Most families using approved child care would receive substantially more than 30% of the recommended fee as those families on lower incomes would receive more support: up to a maximum of 85% of the recommended fee.

As part of the Child Care Benefit Guarantee, on the condition that State and Territory Governments provide 20 hours of free preschool per week to all children in their State or Territory in the year before school (see Recommendation 8), the Commonwealth should approve all other preschool hours for the purposes of CCB. With the exception of preschools, current arrangements for the minimum rate of CCB to be paid for registered care (\$0.471 per hour in 2005-6 indexed annually to CPI) would be retained. (See [Appendix A](#) for indicative schedule of fees and average weekly out of pocket costs).

Estimated Cost: \$530 million in 2006-7

While this proposal will significantly lower the out-of-pocket costs of ECEC services for low and middle income families, some low-income families will still be unable to afford any out-of-pocket costs. This problem can be overcome by expanding access to the Jobs Education Training (JET) Child Care scheme.

Recommendation 10 – Expand the JET Child Care Scheme to assist parents studying

JET Child Care should be expanded to assist low income parents seeking work or undertaking education and training to meet remaining gap payments where these are unaffordable.

Cost: \$10 million in 2006/07

Indication of financial benefits of ACOSS recommendations & current system

Linking Child Care Benefit to the cost of education and care is a much fairer and simpler way of dealing with the cost burden on families than the 30% Child Care Tax Rebate and the recently proposed Fringe Benefit Tax exemptions and salary sacrifice arrangements.

The table below uses a case scenario to illustrate how the ACOSS proposal leaves most families with children in early childhood education and care better off while delivering the greatest benefit to lower income families.

Table 1: Indicative case study of two children in LDC 20 hours per week (\$43 daily centre fee)

Family type/ income	Present system			ACOSS proposal		
	CCB current (\$ pw)	30% CCTR (\$ pw)	Total (\$ pw)	New CCB (\$ pw)	Better off (\$ pw)	Out of pocket costs (\$ pw)
Single unemployed parent undertaking education or training (\$23,000)*	\$132	\$0	\$132	\$146 (85% of fee)	\$14	\$26
Low income couple \$36,000**	\$129	\$13	\$142	\$146 (85% of fee)	\$4	\$26
²⁸ Middle income couple \$70,000***	\$86	\$26	\$112	\$120 (70% of fee)	\$9	\$52
High income couple \$105,000****	\$21	\$45	\$66	\$52 (30% of fee)	-\$15	\$120

* Parenting Payment (Single) plus FTB A & B

** \$24,000 (tax payable: \$3,593) + \$12,000 (tax payable: \$785) exc. FTB

*** \$50,000 (tax payable: \$11,922) + \$20,000 (tax payable: \$2,445) exc. FTB.

**** \$81,000 (tax payable: \$24,997) + \$24,000 (tax payable: \$3,593)

²⁸ Median family income where two or more members of the household are employed was \$64,064 in 2003-4.

[http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/77A436D61EC1D4EACA257052007EB688/\\$File/65230_data_2003-04.xls](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/77A436D61EC1D4EACA257052007EB688/$File/65230_data_2003-04.xls)

Indicative schedule of fees and out-of-pocket costs under ACOSS recommendations

Table 2:

Indicative schedule of fees and maximum and minimum CCB benefit paid

Service type	Recommended daily fee²⁹ (10 hours per day)	Gov't rebate (minimum @ 30% sch. fee)	Gov't rebate (maximum @ 85% sch. fee)
<i>Long day care</i>	\$43	\$13	\$37
<i>Occasional care</i>	\$43	\$13	\$37
<i>In home care</i>	\$43	\$13	\$37
<i>Family Day Care</i>	\$37	\$11	\$32
<i>OSHC</i>	\$10.32*	\$3.10	\$8.77

* avg per session after school care.

Table 3:

Weekly out-of-pocket costs on max CCB

Type of service	20 hours	30 hours	40 hours
<i>LDC</i>	\$12	\$18	\$24
<i>FDC</i>	\$5	\$10	\$15
<i>OSHC</i>	2 sessions pw	3 sessions pw	4 sessions pw
	\$3.10	\$4.65	\$6.20

Table 4:

Weekly out-of-pocket costs on min CCB

Type of service	20 hours	30 hours	40 hours
<i>LDC</i>	\$60	\$90	\$120
<i>FDC</i>	\$52.00	\$78	\$104
<i>OSHC</i>	2 sessions pw	3 sessions pw	4 sessions pw
	\$14.44	\$21.66	\$28.88

²⁹ Based on figures from FACS (2004), *2004 Census of Child Care Services*, Canberra, p50-52 .

Cost to Commonwealth of ACOSS recommendations

Replace 30% CCTR with 30% Child Care Benefit Guarantee:	\$530m ³⁰
Commonwealth state agreement:	\$130m
Expand disability inclusion:	\$15m
Expand Indigenous child care:	\$15m
Expand Jobs Education Training Child Care (JET)	\$10m
Total estimated cost:	\$700m

³⁰ Calculations are available on request.

ACOSS response to proposals for Fringe Benefits Tax exemption for child care costs

It is beyond the scope of this paper to model the distributional effects of proposals to expand FBT exemptions for child care costs.³¹ However, it is clear that these proposals will mainly benefit wealthy families by allowing them, in effect, to buy child care tax free from their employer.

Broadly, the distribution of the proposed subsidy means that a person on the top tax rate, earning \$95,000 or more per year, gets a subsidy from the Government of 48.5 cents per dollar spent on child care (this includes saving on the Medicare Levy) whereas a part time worker on less than \$21,000 gets a subsidy of just 16.5 cents.

In addition, the low income earner has less chance of being offered 'salary sacrifice' by the employer than an executive or professional. Even if they were, it would not be worthwhile because they would have to forego CCB, which would generally be worth more.

Similar proposals have been put to governments before, and always rejected because higher income earners benefit most, spending is poorly targeted and expenditure could spiral out of control (especially if the concession is extended to informal child care such as nannies, and is not capped).

As detailed in the ACOSS recommendations, it is simpler and fairer to improve the CCB, which is available to all families using formal child care and not a select few, and provides the highest benefits to those on the lowest incomes. This also better advances the Government's agenda of promoting greater workforce participation as participation is already high among executive and professional women but it is women with low levels of skills that need better supports and services to return to work.

³¹ Deloitte, *Submission to the Federal Treasurer, Exemption of Child Care from Fringe Benefits Tax* 11 November 2005.

[http://www.deloitte.com/dtt/cda/doc/content/Synopsis%20to%20Submission%20to%20the%20Federal%20Treasurer\(2\).pdf](http://www.deloitte.com/dtt/cda/doc/content/Synopsis%20to%20Submission%20to%20the%20Federal%20Treasurer(2).pdf)

Summary of current system for early childhood education & care

This Appendix covers seven aspects of the current system:

1. Service types
2. Regulation
3. The planning system
4. Demand
5. Spending
6. Child Care Benefit
7. Child Care Tax Rebate

1. Service Types

Family Day Care is a network of caregivers who provide care and developmental activities in their own homes for the children of working families and the general community.

Long Day Care is a centre based form of child care which provides all day or part-time care for children of working families and the general community. These services are predominantly provided by private for-profit companies, but are also provided by local councils, non-profit organizations, community organizations and employers.

Outside of School Hours Care (OSHC) provides care and developmental activities mainly for primary school children before and after school and during vacation time. (This paper deals with OSHC only in part).

In-Home Care is a targeted form of child care where an approved carer provides care in the child's home. It is only available for families who do not have access to existing child care services or where an existing service cannot meet their needs

Other formal services include multifunctional services, Multifunctional Aboriginal children's services (MACS) and mobiles. Multi-functional services are located in rural areas and provide a number of different child care services for children 0-12 years in the one building. Mobiles provide services such as preschool programs, playgroups, older children's activities, toy and book libraries, and parental support and advice for families living in rural and remote areas. MACS are non-profit community based services designed to meet the social and developmental needs of Aboriginal and Torres Strait Islander children. Services are provided for pre-school and school age children and include long day care, playgroups, outside school hours care, vacation care and cultural programs.

Preschools offer educational and developmental programs for children in the year or two before they start full time school. Dedicated preschools offer sessional programs during school terms only and generally involve a distinct group of children meeting for around two to four sessions per week, with each session lasting half the normal school day or the full school day. Many long day care centres provide a preschool program run by a qualified early childhood teacher. The funding of dedicated preschools is the responsibility of State and Territory Governments.

Registered Care

Registered care is care provided by nannies, grandparents, relatives or friends who are registered with the Family Assistance Office. It can also include work related care provided by registered private pre-schools, kindergartens, some occasional care centres and some outside school hours care services.

2. Regulation

There are agreed national quality standards for Long Day Care, Outside School Hours Care and Family Day Care Services.

State and territory Governments are responsible for licensing centre-based long day care (in all states) and occasional care, family day care and outside school hours care services (in some states). The licensing covers aspects of a service's operation such as the number of children in care, the size of rooms and playgrounds, the number of staff and their qualifications and health and safety.

The Australian Government manages the administration of a quality assurance framework for reviewing, measuring and improving the quality of work being done by approved child care providers. It encompasses processes for self-study by services and improvements against principles of good quality care. This quality assurance system builds on state and territory government licensing regulations, which generally provide a minimum standard of operation for services. The Commonwealth funds the National Child Care Accreditation Council and has legislative responsibilities for managing services' non-compliance with quality standards.

To be eligible for approval for CCB purposes, family day care, long day care and outside school hours services must register for and satisfactorily participate in quality assurance.³²

3. The planning system

Childcare

In the case of Long Day Care, which caters for the majority of 0-4 year olds in formal care, there is no limit on the number of places provided. Long Day Care operators are permitted to establish services wherever they decide a market exists for the service.

Available places in all other forms of child care (OSHC, OC, FDC, IHC) are allocated in accordance with written determinations under the Family Assistance Administration Act and the Child Care Benefit (Allocation of Child Care Places) Determination 2000. This legislation requires that child care places are allocated only in accordance with written determinations, which specify the areas where places may be allocated and the number of places of each kind that can be allocated in each area.

The Australian Government uses a range of data sources to inform the allocation of approved child care places which may include Australian Bureau of Statistics census and survey information and projections and the Government's own child care census. This data is provided to Planning Advisory Committees in each state and territory, which also draw on their own local knowledge of state government planning data and advice from local governments.³³

³² Department of Family and Community Services (2005), *Child Care Service Handbook*, Canberra, p3.

³³ Membership of Planning Advisory Committees typically includes a representative from private long day care services, community-based long day care services, family day care and outside of school hours care and a representative from both the state or territory government and local government.

The allocation of new places is generally advertised, except in cases involving only a small number of places or where existing services have a clear need for extra places and no other operators have sought places. Where places are allocated, applications are assessed and places allocated to the most suitable operators.³⁴

Preschools

State and territory government data collections contain information about the child care and preschool services that these governments fund and/or license. There are however great variations in the nature and extent of these collections.³⁵

4. Demand

All parents of children under 12 years of age potentially need someone other than themselves to care for their children. In 2002, there were nearly 3.5 million children aged under 12 years in Australia, representing the potential population needing some form of child care.³⁶ Of these, 1.3 million were preschool aged children (0-4).³⁷

The ABS estimated that in June 2002, nearly 45% of children used some kind of formal child care (that is, regulated care away from the family home).³⁸

Between 1993 and 2002 (the last time that official figures were collected) there was a 39% increase in the number of children aged 0-4 using only formal care. In contrast, the number of 0-4 year old children using only informal care fell by 28%. This increase was related to improvements in the accessibility of care (including affordability).³⁹

The proportion of children using either formal and/or informal care varies depending on the age of the child. For children under the age of one for example, the majority (66%) did not use either formal or informal care. That is to say, they were cared for by a parent at home. This reflects the clear preference of the majority of families to care for very young children within the immediate family. It also reflects the institutional arrangements (such as the availability of paid and unpaid maternity leave) that make this possible.

As the age of the child increases, the proportion of care provided solely within the family drops while the proportion of care provided in formal settings rises. By the time children turn four, the proportion solely cared for by parents drops to 12%, with 83% using some kind of formal education and care.⁴⁰

The most commonly used types of formal education and care among children aged 0-4 are Long Day Care (51%), preschool (35%) and Family Day Care (14%).⁴¹

³⁴ Department of Family and Community Services (2005), *Child Care Service Handbook 2005*, Canberra, p.7.

³⁵ AIHW (2003) *Australia's Welfare 2003*, p.225.

³⁶ AIHW (2003) *Australia's Welfare 2003*, Canberra, November 2003, p. 229.

³⁷ ABS (2002), *Child Care Australia*, 4402.0, p. 21.

³⁸ As opposed to *informal care* which refers to non-regulated care arranged by a parent or guardian either inside or outside the family home. It comprises care provided by relatives, friends, neighbours, babysitters and nannies. It may be paid or unpaid.

³⁹ AIHW (2003) *Australia's Welfare 2003*, Canberra, p. 229.

⁴⁰ ABS (2002), *Child Care Australia*, 4402.0, p. 14.

⁴¹ Calculations based on data from ABS (2002), *Child Care Australia*, 4402.0, p. 14.

According to the Department of Family and Community Services *2004 Census of Child Care Services*:

- 79% of children attending a Long Day Care Centre attended that service for less than 30 hours per week
- 58% of the children attending a Long Day Care Centre attended for less than 20 hours a week.

This is the same as in 2002.⁴²

The FACS 2004 Child Care Census found that on average children used about 20 hours of childcare (the figure was similar for LDC, FDC and IHC).

Approximately 244,200 children attended a State or Territory funded and/or provided preschool service in 2004-5. The majority (88.5%) were to begin full time schooling the following year.⁴³

Recognising the different ways in which the States and Territories measure preschool attendance, the Productivity Commission reported that in 2004-5, the proportion of children attending a State or Territory preschool service in the year before school was as follows:

- WA 100%
- Tas 100%
- Qld 98%
- Vic 96%
- SA 93%
- NT 82%
- ACT 80%
- NSW 58%

All jurisdictions except NSW, Victoria and NT provided data on the average hours of attendance for government funded and/or provided preschool services. The average attendance of children in the year immediately before they commenced full time schooling was 11 hours a week.⁴⁴

Several States have had a substantial increase in the price of child care as the below table shows.

Price Increases in Child Care by State (Long Day Care⁴⁵)

State	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	National Average
Average Weekly Fees* 1999	\$168	\$162	\$151	\$164	\$155	\$176	\$150	\$178	\$161
Average Weekly Fees* 2004	\$222	\$204	\$195	\$199	\$196	\$209	\$188	\$229	\$208
\$ increase	\$54	\$42	\$44	\$35	\$41	\$33	\$38	\$51	\$47
% age increase in fees 1999-2004	32%	26%	29%	21%	26%	18%	25%	29%	29%

⁴² Department of Family and Community Services (2005), *Child Care Service Handbook 2005*, Canberra, p. 7.

⁴³ SCRGSP (Steering Group for the Review of Government Service Provision) (2006) *Report on Government Services 2006*, Productivity Commission, Canberra, 14.11

⁴⁴ SGRGSP (2006) 14.12

⁴⁵ Census of Child Care Services 1999 & 2004, Department of Family and Community Services.

5. Spending

There is no comparable international data on national spending on early childhood education and care. However, there is data available on pre-primary education which is limited to organized, centre-based programmes designed to foster learning and social and emotional development in children aged 3 to compulsory school age. Most OECD countries spend between 0.4% and 0.6% of GDP on pre-primary education. Australia however spends 0.03% and is ranked 26th of 28 OECD countries.⁴⁶

Commonwealth

The Commonwealth spent just over \$1.7 billion on child care in 2004-05 which will rise to nearly \$2.0 billion in 2006/07 when the 30% Child Care Tax Rebate (CCTR) is introduced.

The majority of the Commonwealth's contribution (\$1.64b) is dedicated to Child Care Benefit (CCB). The majority of this spending (approx \$1.5 billion) is provided to the families of children aged between 0 and 4 years.

The other components of the Commonwealth spending are:

- \$226 million for the Child Care Support Program which provides:
 - Programs that promote quality child care, including training and professional development and quality accreditation measures (\$26m)
 - Programs to support access to quality child care for families and children with additional needs (\$60m)
 - Programs to support access to child care for children and families in areas or in circumstances where the market would otherwise fail to provide child care services (\$138m)
 - Planning, monitoring, education and communication measures to support the government's investment in child care (\$2m)
- \$17 million for the Jobs Education Training (JET) Child Care program which provides extra child care assistance to jobless parents wishing to undertake study, work or job search activities. JET Child Care can help meet the costs of child care in approved services by paying most or all of the gap fee.

Families

Families are now paying a substantial proportion of total ECEC costs in Australia. They contribute approximately \$2 billion per annum to LDC, FDC and OSHC (or 54%) of which \$1.8 billion is contributed for children aged 0-4 in LDC and FDC. The Commonwealth's contribution to LDC, FDC and OSHC by comparison is \$1.7 billion (46%).⁴⁷

Median gap fees are estimated to be \$50 per week for Long Day Care, \$27 per week for Family Day Care, \$13 per week for preschool services and \$22 for Outside School Hours Care.⁴⁸

⁴⁶ OECD (2001) *Starting Strong: Early Childhood Education and Care*, <http://213.253.134.29/oecd/pdfs/browseit/9101011E.PDF>, p.87.

⁴⁷ Calculations are available on request.

⁴⁸ Calculations are available on request.

Other sources

State and Territory governments provide capital and operational support for preschools in all states and territories, though to varying degrees. State and Territory governments may also provide land and premises for preschool and childcare services and pay for the employment of early childhood teachers for 3 and 4 year olds in childcare centres.

Local government and non-government organizations may provide land and/or premises for the operation of a childcare or preschool service.

There is no national level data available on the contribution of local councils, state governments or child care providers to the cost of delivering childcare and preschool services.

6. Child Care Benefit

Since 2000, the Australian Government has relied on Child Care Benefit (CCB) as the primary means of subsidizing the cost of child care for the majority of Australian families.

Child Care Benefit is a means tested payment available to families that have children in approved or registered care. The amount of Child Care Benefit available to families is dependent on a number of variables, including type of care, family income and the immunisation status of children.

For children who are using approved care, the Australian Government funds the Child Care Benefit (CCB) which entitles the families of children to a reduced cost of care, dependent on income. For families with incomes of \$31,755 or less, the maximum rate of CCB (\$137 per week) is applied. This rate is for one child who is not at school, and who is in care for 50 hours per week. The rate under these conditions is equivalent to \$2.74 per hour. If families earn more than \$31,755, the CCB tapers down to a minimum rate of \$23.00 per child for 50 hours of care per week—or \$0.46 per hour. If a family has an income greater than \$91,035, they are eligible for only the minimum rate. The rate of CCB for children at school is 85% of that payable for children not at school. Families with more than one child in care are paid a loaded (additional) rate of CCB.

In addition to this, families can also claim the minimum rate of CCB if their child is attending registered care. Registered care may be provided by grandparents, relatives and friends as well as some private preschools, kindergartens, outside school hours care services and occasional care centres as long as they have been registered through the Family Assistance Office (FAO). Families using approved care can choose to have their CCB paid to the child care services (i.e. directly reduce the fees that they pay) or can receive it in the form of a lump sum from the FAO at the end of the financial year. Families using registered care can claim CCB from the FAO during the year by submitting the child care receipts within 12 months of having the care provided.

The amount of CCB for the standard hourly rate for approved care rose by \$0.30 between 2000–01 and 2003–04, while the amount for registered care rose by \$0.05.

In January 2005, a Grandparent Child Care Benefit was introduced. Under this benefit, the normal work, training and study test is waived. This means that grandparents who are primary carers of their grandchildren can receive CCB for up to 50 hours a week, regardless of whether or not they are working or studying.

17% of CCB recipients claimed the minimum level of CCB and 35% claimed maximum CCB in 2004-5.⁴⁹

7. 30% Child Care Tax Rebate

The Australian Government recognized the declining affordability of child care for families in its decision to offer a 30% tax rebate on out-of-pocket child care expenses.⁵⁰

Since its original announcement, the Government has moved to limit the cost of the rebate by capping the total amount that could be claimed at \$4,000 per child and restricting eligibility to children using approved care only.

The CCTR is a non-refundable tax offset that can only reduce a person's tax liability to zero. Once a person's basic income tax liability has been reduced to nil, the taxpayer cannot receive the excess as a refund. The rebate is transferable, so that any excess may be transferred to the taxpayer's spouse.

The rebate can be claimed in income tax returns for the year ended 30 June 2006 for out-of-pocket expenses incurred from 1 July 2004 to 30 June 2005.

⁴⁹ Department of Family and Community Services (2005), *Annual Report 2004-05*, <http://www.facs.gov.au/annualreport/2005/part2/output1-4.html>

⁵⁰ Out of pocket expenses are total child care fees for approved care, less actual CCB entitlement.