The Background and Current State of ECEC Policy in Australia: An Economist's View

June 2015

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I've organized these thoughts as the answers to a series of questions. I focus more on long day care than on other services. There are many more details and exceptions that I have not included in this overview.

1. ***What are the main types of Australian ECEC services?***

   Australia's long day care centres (LDC) are called "child care centres" in other countries. LDC's serve children younger than school age for day-long services, five days per week. There are also family day care services, which are child care services provided in a provider's home (usually); the providers are recruited and monitored by an agency. Occasional care services are usually provided in centres on an hourly or sessional basis for short periods of time or at irregular intervals. These services are primarily for children 0-5 years of age.

   Most long day care centres are private (either not-for-profit or for-profit); only a small proportion are provided by the public sector, typically by local governments. For-profit service providers dominate the provision of long day care. About 66% of long day care services were for-profit in 2011-12, while about 27% were non-profits, and the remainder were provided by governments.

   There are about 6,500 long day care services in Australia, approximately a 50% increase in the last decade. Most providers operate 4 services or fewer, but there are a number of large chain providers.

   The other main type of care for children less than school age is preschool – available in the year before schooling starts, and normally provided for 2 ½ - 3 hours per day. Typically this is at age 4 (although also at age 3 in some places), and in a number of states is called kindergarten, in some others, prep. Most preschools (kindergartens) are provided either by government or by the not-for-profit/community sector. The existence of preschool reflects the historical separation between care and education – stand-along preschools are inconvenient for parental employment, but are regarded as positive for children by many parents.

   For children of school age, there is "out of school hours care" or OSHC; this note will not discuss care for children of school age.

   School in Australia starts at age 5; this year is typically known as Year 0 (zero) and is not compulsory although nearly all children go. Compulsory schooling starts at Year 1 (age 6). There is considerable use of ECEC services for children when they are younger than school age and much less use when they are older. In 2012-13, there were 830,000 children enrolled in long day care, 190,000 in family day care, 270,000 enrolled in stand-alone preschools (preschool is also available as part of many long day care programs at age 4 [and sometimes age 3]), and 180,000 in OSHC. There were also 13,000 children who attended what is called occasional care, which is irregular use of care for a few hours.

2. *What is the "utilization problem" and where does it come from?*

The median number of hours per week of attendance at long day care centres is astonishingly small at 16 hours per week (essentially, two days per week). About 20% of children attend for 20-29 hours per week, and another 20% attend for 30 or more hours. The number of hours used may vary systematically by age of child.

For long day care centres, such as those operated by Goodstart, the use of a small number of hours and days by many children creates a central problem of operations and finances, which is the utilization (or occupancy) problem. Centres are licensed to care for a certain number of children, but on many days centres will have a smaller number of children than allowed (because many parents want only part-week care but it is difficult to find parents who want just the days that are available for the age groups for which it is available). Because of the difficulty of matching new demand to existing vacancies, it is quite possible for a centre to have unutilized capacity and yet to have to turn away parents who want care on days or for an age group for which it is not currently available.

The low number of hours of use of long day care and family day care means that (according to Productivity Commission calculations), there are only about 300,000 children using these two types of care on a full-time-equivalent basis. In other words, if we consider a full-time-equivalent to be a child attending five days per week for full days, there are effectively only 300,000 of these children in Australian child care services (excluding stand-alone preschools).

This utilization problem reduces total revenues, increases costs per child and lowers the quality of ECEC experience for children. Total revenues are lower than potential revenues if all licensed capacity were used. Reduced occupancy drives up costs per child because teaching staff may be hired for a certain number of hours per week and cannot simply be sent home on days when demand is low. The low number of weekly hours of child care use also contributes to reducing any positive effects of child care on children's development because most children only receive care for a few hours per week, and because children cannot depend on a consistent peer group of other children with which to develop relationships. It is difficult for educators to program effectively for different children on different days; this tends to reinforce the "custodial" characteristics of child care. Further, in an attempt to reduce costs on days when demand is low, centres are pushed to hiring staff on a casual basis, which is not optimal for building relationships between children and educators.

In 2004, it was reported that the majority of staff in long day care worked part-time hours and nearly half held casual jobs. This encourages the relatively high rates of turnover in the field, and cannot be optimal for children's development. According to the 2013 ECEC Workforce Census, about 50% of contact staff held full-time jobs. This may be an over-estimate because the sampling methodology for the census would probably exclude many casual staff.

The low number of hours of typical use of long day care and other ECEC services is related to the working situation of Australian mothers. Only 54% of mothers with children less than 5 years of age were in the labour force. This has risen substantially over the years, but is still low by international comparison. Even more to the point, two-thirds of these mothers are employed part-time (less than 35 hours per week) rather than full-time. Note that part-time work is better compensated and part-time workers have more working rights in Australia than in most other countries.

According to a study by Kalb and Lee in 2007, over 80% of families with all parents employed and with a child 0-4 use formal ECEC (including preschool).

Ignoring the work status of parents:

- less than 10% of children below one year of age use ECEC services
- 37% of children who are one year of age use ECEC services
- 55% of children who are two years of age are in formal ECEC
- This rises to 70% of all three-year-olds
- and 82% of all four-year-olds.
- When children are in school at age five, only 30% use formal ECEC.

3. ***Before the recent Productivity Commission report and announced government reforms to ECEC, what were the main components of government policy towards the financing of ECEC?***

Australia has a Commonwealth, or federal, government and also governments in each state and territory. The Commonwealth government provides most of the financial assistance to families that is available to purchase long day care, family day care and related types of care. The states and territories have historically been responsible for financing preschools. Although the federal government provides some funding to the states and territories for this purpose, the heavy lifting is done by the states and territories themselves (total government expenditure on preschools is about $1.1 Billion). This separation in the financing, organization, program and staffing of preschools vs. other types of ECEC has helped to create and reinforce the separation between "education" and "care" for young children. The recent COAG reforms have attempted to reduce the split between care and education, establishing common quality-assessment techniques and curricular approaches.

States have historically been responsible for regulating and licensing long day care centres, family day care and other forms of ECEC, as well as preschools.

There have been two main forms of Commonwealth funding for child care: the Child Care Benefit (CCB) and the Child Care Rebate (CCR).

- The Child Care Benefit helps families pay for the use of approved forms of child care (with a little bit of funding available for other "registered" forms of care).
- This assistance is geared-to-income with families earning less than about $42,000 getting the maximum amount as long as all parents are engaged in designated activities – essentially work, study, training or volunteer work – for at least 15 hours in the week.
- The maximum amount under CCB is about $4.00 per hour up to 50 hours per week [potentially about $10,000 per year if child care were used full-time]. Long day care is typically sold on a per-day basis, so CCB would cover $40 for a 10-hour day.
- The typical price of long day care is now over $7 per hour (or over $70 per 10-hour day, or $18,000 for full-time full-year services), so child care expenses would generally be much higher than the amount covered by CCB.
- Families earning up to about $144,000 with one child would get some assistance from Child Care Benefit.

The Child Care Rebate (originally a tax rebate, but now available to families whether or not they have taxes to pay) is meant to compensate families for child care fees that have not been covered by the Child Care Benefit (called out-of-pocket costs).

- The Child Care Rebate covers 50% of a family's out-of-pocket child care costs up to a maximum of $15,000 per child
- Therefore, the family could receive up to $7,500 per child as compensation for fees paid as long as the family is engaged in work-related activities.
- This means that the greatest amount of assistance goes to the families with the highest child care expenditures, who generally are more affluent families.
- Note that at the average price of $7 per hour for 2 days of child care at 10 hours per day, the median family might be spending $140 per week or $7,280 per year for a child in care. Even if they were not eligible for any CCB, they would get half of this back from CCR.

Taking into account the effect of CCB and CCR on child care expenditures, according to DEEWR administrative data, the cost per hour of long day care:

- was $1.65 per hour for a family earning $30,000 per year,
- $2.21 for a family earning $70,000,
- $2.98 for a family earning $120,000 per year
- $3.60 per hour for a family earning $150,000.
- Families at all levels of income who have one child in long day care and used it full-time would spend about 9% of their after-tax income on child care.

There have been many other relatively small and specialized ECEC financing programs. The largest of these is JETCCFA that tops up the funding available through the Child Care Benefit and the Child Care Rebate so that most of the remaining costs will be covered for very low income families who meet the activity test (e.g., working, studying, training, looking for work) for a minimum of 15 hours per week.

JETCCFA also provided up to 24 hours per week of Child Care Benefit assistance for families in which parents do not meet the 15-hour activity requirement, as long as family income is below $42,000 annually. And there is Special Child Care Benefit available for 13 weeks for situations in which a child is at risk or the family is in temporary financial hardship.

The total amount of Commonwealth, state and territorial financial assistance to early childhood education and care was about $6.8 Billion in 2012-13.

- Of this, over $5 Billion was fee assistance through Child Care Benefit and Child Care Rebate for about 950,000 families.
- About $1.1 Billion was funding of preschool services, largely provided by the states and territories with supplementation from the Commonwealth Government.
- About $365 million went on various additional grants (establishment grants, viability grants, regional travel assistance, assistance for staff training and development, operational subsidies and enhanced quality).
- In addition, local governments sometimes deliver ECEC services directly, contribute land and buildings or subsidized rent, provide targeted services for vulnerable families and may coordinate and plan local provision of services.

Government expenditure (in 2012-13 dollars) increased from $2.2 Billion in 1996-97 to $3.2 Billion in 2004-5 and reached $6.8 Billion in 2012-13[1]. According to the Productivity Commission, this averages out to about $6,100 for every child who is currently in formal ECEC services, including

[1] DEEWR (2013) records that long day care prices have increased on average by about 7% per year over the eight years from 2004-2012, or by nearly 75%. Over the same period, the increase in the general price level was about 25%.

preschool. Again, according to the Productivity Commission, governments cover nearly 2/3rds (about 63%) of all of the costs of ECEC services and parents pick up the rest.

Since about 2008, there has been substantial evolution of ECEC policy in Australia, driven by agreements reached by COAG (Council of Australian Governments – which is a council composed of both Commonwealth and state and territorial governments).

- Agreements under COAG have established a National Quality Framework for ECEC.
- This established a common curricular approach (the Early Years Learning Framework) for all types of ECEC services and a common set of regulations for child:staff ratios, educator qualification requirements and other matters across states and territories.
- It established a new quality assessment framework and processes for regularly assessing quality in long day care, family day care and preschools, amongst other ECEC services.

  Since 2008 a National Partnership Agreement has provided federal funding to ensure that 15 hours per week of preschool would be available across the country for 4-year-old children. The agreement specified that cost would not be a barrier to access but out-of-pocket expenses vary across the country depending on the service model ranging from free to over $40 per day.

4. ***Broadly speaking, what reforms did the Productivity Commission recommend and why?***

The Productivity Commission believes that if child care markets are competitive and regulations are minimized beyond those deemed essential, providers will deliver child care services to families in a cost-efficient manner and price increases will be minimized. They rejected the suggestion that child care markets do not function properly and that competition was not a reliable tool to ensure efficient operation. Accordingly, in its initial report (although some of these recommendations were modified in the final report), the Productivity Commission suggested increasing competition and reducing regulation in the following ways:

- increase the types of services that are eligible for fee assistance (adding nannies),
- weaken the National Quality Standards as they apply to children less than 3 years of age,
- remove preschools from the quality assessment process monitored by ACECQA.

The Productivity Commission rejected suggestions for the comprehensive regulation of costs and prices, and instead recommended a form of "price-cap" regulation used in many regulated industries. Price-cap regulation establishes a maximum acceptable price and then allows this cap to adjust over time with inflation.. Firms in the regulated industry are supposed to find ways of innovating to lower their costs relative to the price cap in order to make themselves more profitable.

Under the Productivity Commission model, the price cap would act as a fixed subsidy rate, with all families receiving the same amount of subsidy regardless of the actual price of the service. Firms that could deliver services at prices below the price cap would be rewarded with a higher effective subsidy rate for their families. Alternatively, they couold increase their fees to the price cap to make themselves more profitable.

The Productivity Commission, suggested that a price-cap set at the median of all prices, about $7.50 per hour, be adopted for long day care. This benchmark price would become the hourly limit for child care subsidization; any family facing higher hourly prices for child care would have to bear any extra costs on their own. The logic of this policy was to encourage parents to put downward pressure on providers to keep their fees below or at the benchmark price – stimulating competitive pressures in child care markets.

In order to target fee assistance on families that need it the most, the Productivity Commission recommended scrapping the double-barreled fee-assistance provided by the Child Care Benefit plus the Child Care Rebate and replace them with a single subsidy which would be geared-to-income and activity-tested.

- o Families earning less than about $60,000 would receive maximum assistance (85% of the benchmark price).
- o Families earning over about $250,000 would receive 20% of the benchmark price.
- o In between these income levels there would be a sliding-scale of assistance, a decreasing percentage as family incomes rise. (So, for instance, families earning about $120,000 would have about 65% of the actual hourly fee covered by subsidy (up to the benchmark price)).
- o This assistance would only be available to families in which all parents met the activity test (working, studying or training, but also including volunteering).
- o The details of this sliding scale recommendation were slightly different in the Productivity Commission's draft report; these details are from the final report.

5. ***What ECEC reforms were recently announced by the Abbott government?***
The Abbott Government followed many suggestions of the Productivity Commission but in a more moderated version as described below. Most reforms are to be implemented in 2017 and income thresholds and caps are presented in 2017 dollars/terms.

- a single Child Care Subsidy paid direct to providers for users of long day care, family day care and other forms of approved care, geared-to-income for parents who pass an activity test.

- The child care subsidy would compensate up to 85% of actual hourly child care expenses up to an hourly fee cap for families with income less than about $65,000.

- The fee cap for long day care in 2017 would be the expected average price ($9.83) plus 17.5% - projected at $11.55 (much higher than the median of $7.50 floated by the Productivity Commission). The fee cap would be increased by the Consumer Price Index each year.

- This subsidy would taper off to 50% of actual expenses (like the current Child Care Rebate and much higher than the Productivity Commission recommendation) at family income of about $170,000, with an annual cap of $10,000 compensation for families with incomes above $185,000.

- The new subsidy scheme would be fairly tightly linked to actual activity hours by the least active parent (e.g., work, study, training). Broadly, 4-8 activity hours per week justifies up to 18 hours of child care subsidy. Or, 8-24 hours per week justifies up to 36 hours of subsidy. Or, more than 24 hours per week justifies up to 50 hours of subsidy.

- There is additional child care subsidy for social assistance income beneficiaries who are looking for work/transitioning to work, or for children at risk, or for families experiencing temporary financial hardship. These features broadly mirror the assistance for these groups in the existing system.

- Up to 12 hours per week of this child care subsidy would be available for families earning less than $65,000 where at least one parent does not meet the activity test of working, studying, training or volunteering for at least 4 hours per week.

- The Abbott Government seems to have backed off the potential watering down of the National Quality Framework floated by the Productivity Commission. There has been no announcement of reduced educational requirements for contact staff caring for children 0-2 years.

- Further, the Abbott Government seems to have backed off weakening the quality assessment framework pioneered within the last few years by COAG agreement. The framework of continuous quality improvement is largely embraced by the sector, and now implicitly approved by the government, at least for the time being.

- There is a pilot program to test out adding nannies to the approved types of care. Under the pilot, there are no educational requirements for nannies and they are not subject to the quality assessment provisions under ACECQA.

6. ***What will Australian child care look like after the Abbott reforms?***

Quality – The Productivity Commission recommended weakening existing child care policies aimed at improving quality, but, so far, the Abbott government has not followed most of these recommendations. The quality of Australian child care services has, historically, been mediocre, with inadequate regulations and quality-assurance measures. However, the COAG-inspired reforms implemented in the last few years (and continuing) are having positive effects and the Abbott reforms have not reversed this.

The staff:child ratios for centre care under the National Quality Standards rolled out in 2012 and 2016 are substantially improved from previous ratios in many states and territories for children below school age. Broadly, they are 1:4 for children 0-24 months, 1:5 for children 25-35 months, and 1:11 for children 36 months to school.

As of the 2013 workforce census, 53% of all contact staff in long day care had qualifications of Cert III or below, including about 13% with no qualifications. Educator qualifications (as of 2014) require that at least 50% of contact staff used to meet the required ratios have an Early Childhood Diploma or above and the rest of the contact staff must have at least a Cert III (i.e., no contact staff without qualifications). For some of the hours of operation, one bachelor-educated Early Childhood Teacher must be in the service, with the number of hours becoming substantial for services with 25 or more children.

The Abbott reforms do not change the required ratios for children 0-2 and have not loosened the quality-assessment provisions under the National Quality Framework. In fact, by providing supplementary funding for the quality assessment process, the government has implicitly accepted that this process is valuable.

The most negative move the Abbott government has made against maintaining and improving the quality of services is the establishment of a pilot program to fund nannies. Families earning less than $250,000 will be eligible to apply for access to subsidization of their use of nanny services. These nannies will not have any educational requirements and will not have their quality of services assessed under the ACECQA-managed quality assessment process.

Access and Affordability – The new child care subsidy scheme announced by the Abbott government (as described above) is more generous than the final recommendations of the Productivity Commission, but particularly so for upper-income families. Higher income families who meet the activity test will have 50% (rather than 20%) of their expenses reimbursed if spent on approved forms of child care.

I haven't seen a comparison of the new Child Care Subsidy to the previous system, but it appears to be more generous, in general, for low-income families who work or study for a substantial number of hours. The highest rate of subsidy will now be available to families earning about $65,000 of family income (in 2017 dollars) rather than about $42,000 under the old CCB. And 85% of expenses will be covered for these low-income families compared to approximately $4 per hour plus half of the remaining out-of-pocket costs (which works out to less than 80% of expenses being covered if the hourly price is about $7 per hour). However, the hours of subsidy available will now be more tightly linked to the number of hours in employment, training, etc.

The real losers appear to be low-income and middle families in which parents are not engaged in substantial numbers of hours of approved activities (work, study, training, volunteer work). Whereas, low-income families without these activities could previously get 24 hours per week of Child Care Benefit, such families will only be eligible for 12 hours per week under the new scheme. If their family income is above $65,000 they will not have any access to subsidy at all. Very vulnerable children such as children are at risk, or families are in temporary financial hardship, should have broadly similar support to what they get now but the details of this have not yet been spelled out.

Prices and Affordability **-** The effects of the child care reforms depend crucially on what happens to child care prices over the next period of time. Over the period of 2004-2012, the average rate of increase of child care prices was 7% per year. At that rate, the price of child care would double over about 10 years. The Abbott government has judged that the average price of long day care in 2017 will be $9.83 per hour (or about $25,500 per year for full-time care 50 hours per week). They have added a margin of 17.5% so that providers in higher-cost situations are accounted for, and have declared that the hourly price cap in 2017 for long day care will be $11.55 per hour (there are different hourly price caps for different types of care). That would make the full-time full-year price of long day care equal to about $30,000, at the hourly cap rate.

Note that if the hourly price cap of $11.55 is not sufficiently high to cover the actual price of a particular long day care's services, the Child Care Subsidy will not cover the planned percentage of actual costs (from 85%

down to 50%). That would leave families paying more than these percentages, and child care could become relatively unaffordable for these families.

On the other hand, the hourly cap of $11.55 may exceed current prices in many long day care centres in 2017. In this case, we have to ask ourselves "what incentives will providers of long day care have to keep prices below the cap?" The answer is that the market pressures on providers will be relatively small. Even very affluent families will only pay 50% of the price of care, and the majority of families would pay a smaller percentage. We can expect that prices of long day care will migrate towards the hourly price cap. Because National Quality Standards have pushed up educator qualifications and staff:child ratios, there will be upward cost pressures in any case.

Although rising child care prices are not an immediate problem for the sector, they are potentially a very important long-run problem. If the price of regular care is at or above $30,000 per year (and especially if the quality of care and education is not excellent at that price), a future government is likely to turn to Cash-for-Care schemes used in some other countries. With these programs, mothers are paid to stay home and provide their own care to ease the financial burden of ECEC services.