

Childcare and Early Childhood Learning

Productivity Commission Draft Report

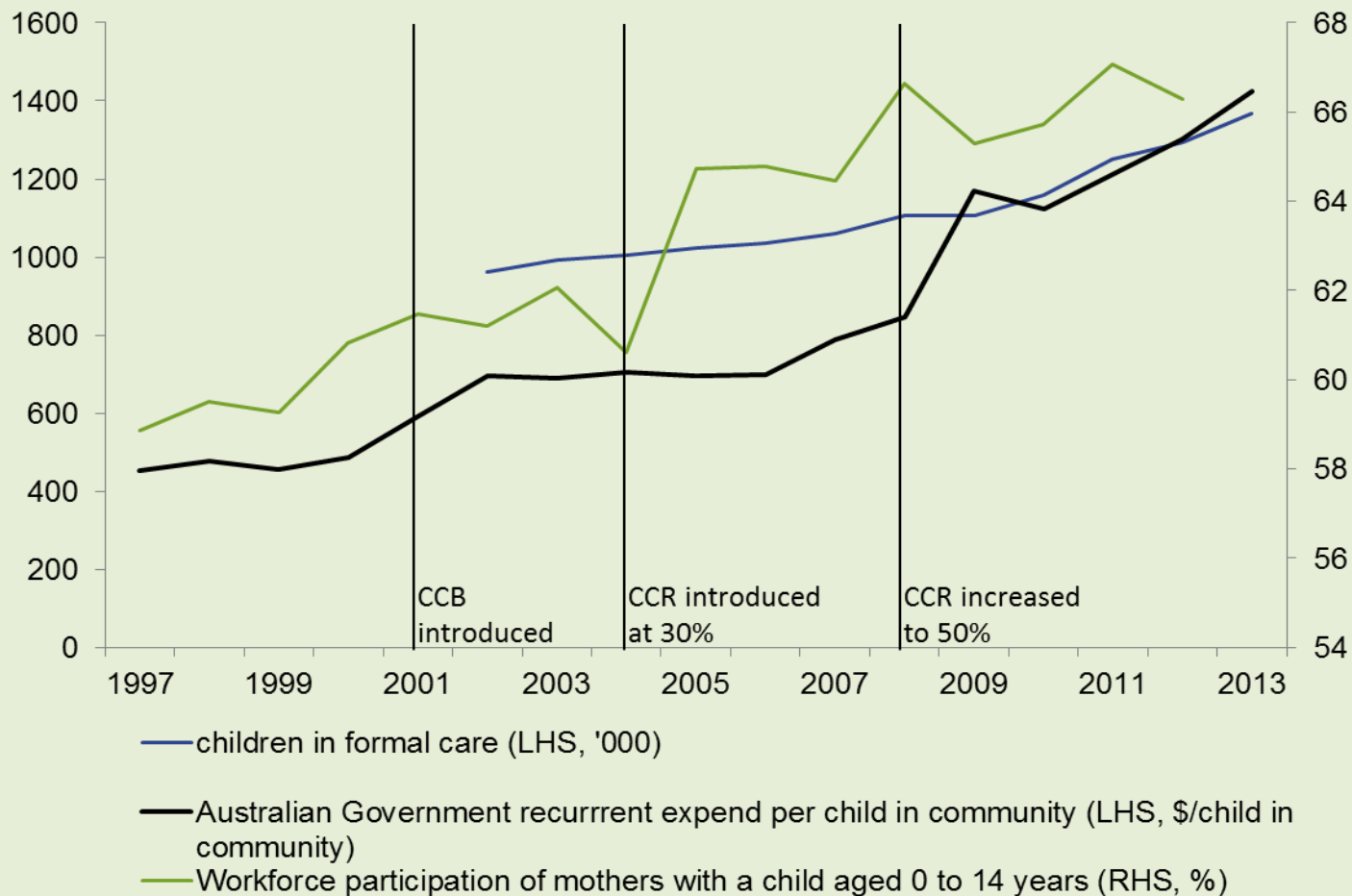
Wendy Craik

Presiding Commissioner

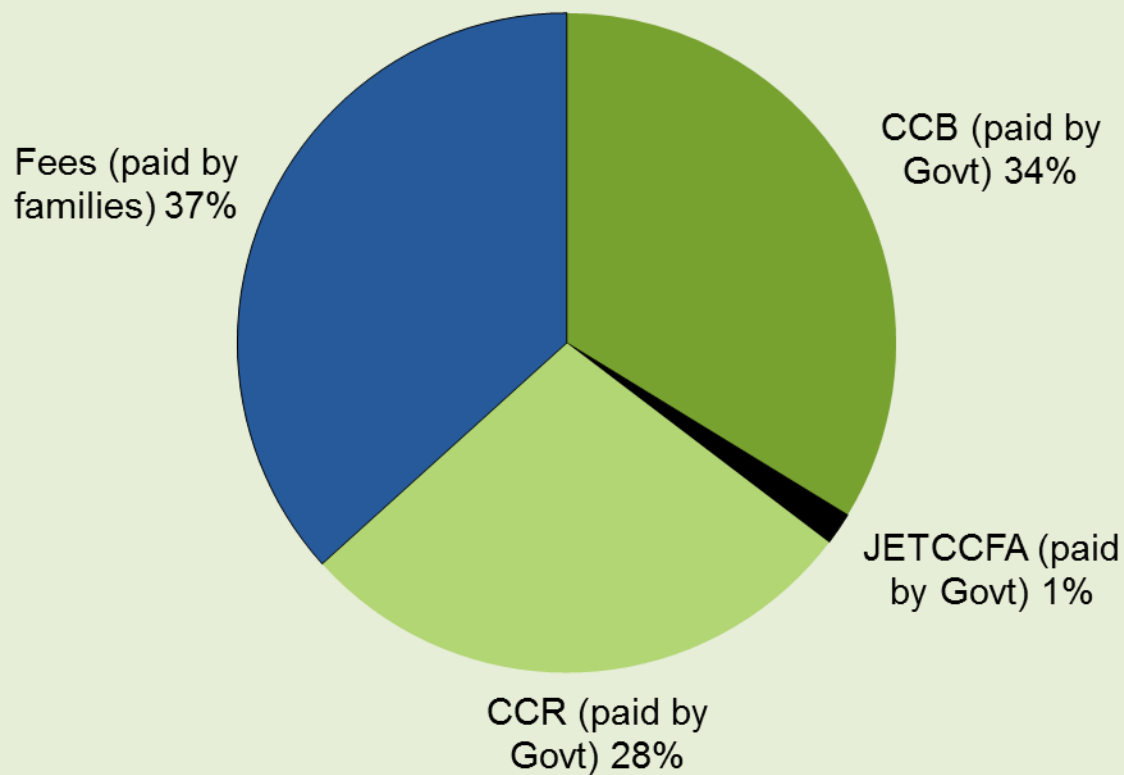
Early Childhood Australia National Conference 2014

Melbourne, 5 September 2014

The ECEC sector is growing



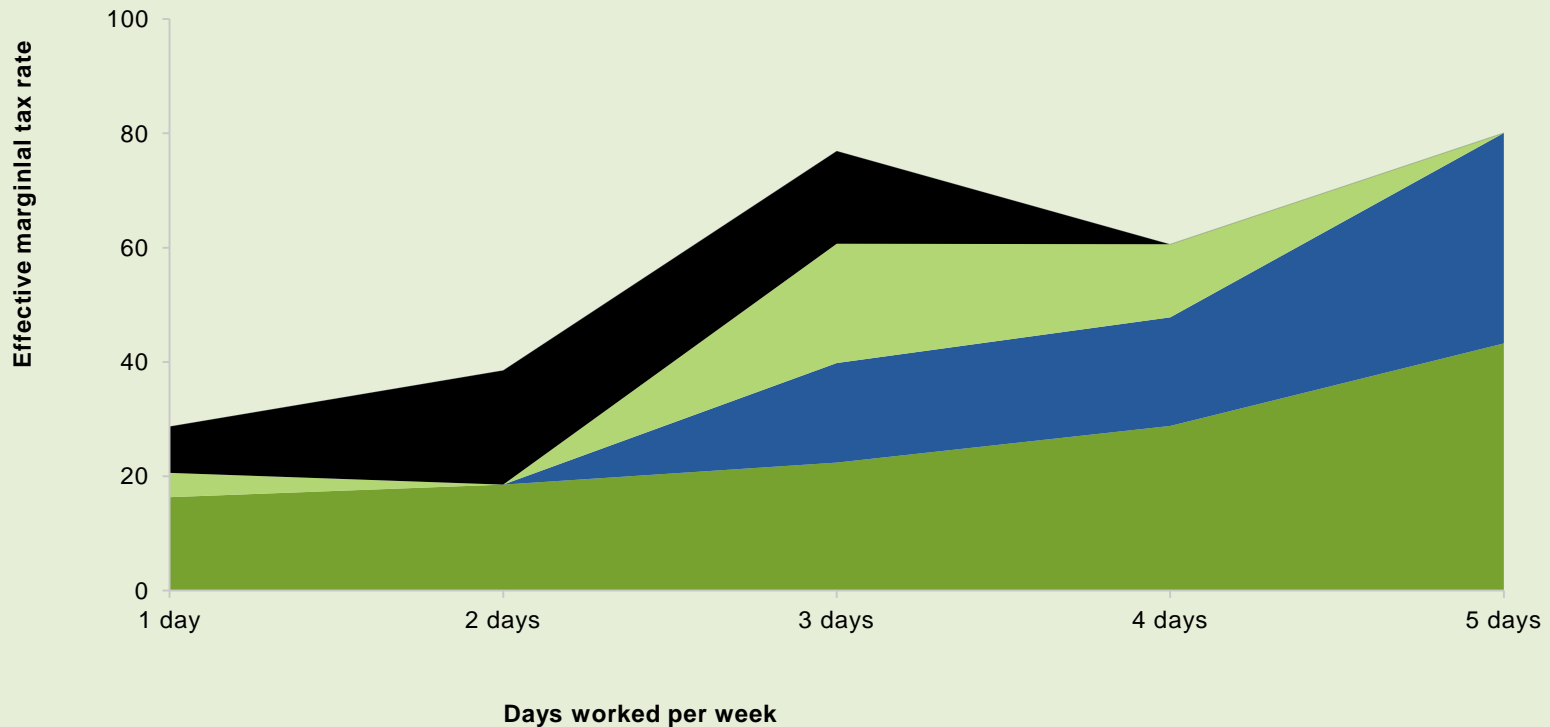
Who pays in Australia's ECEC system



What's wrong with the existing ECEC system

- Declining proportion of assistance to lower income families – who are least able to afford ECEC services – as spending on CCR outstrips CCB
- JETCCFA, SCCB & CSP poorly targeted – funding families and services well outside intended purpose
- Complex for families
- 22% of children starting school are considered to be developmentally vulnerable and are concentrated in disadvantaged communities
- Some parents want to work but are unable to find affordable and accessible ECEC

Workforce participation: why work more than 2 days a week



■ Withdrawal of childcare assistance ■ Increase in income tax ■ FTB A withdrawal ■ FTB B withdrawal ■ Parenting payment withdrawal

Child development research

Family characteristics strongest predictor

Positive outcomes for 1 year of preschool
(socialisation, development, transition to school)

- Benefits greatest for disadvantaged children

Research shows a range of results for younger children:

- Quality ECEC – greater benefits for disadvantaged children
- Potential negative effects – depending on how young & for how long
- Hard to relate specific factors to outcomes, benefits fade over time
- Warm nurturing quality relationship critical

A new approach – 3 main funding streams

1. Mainstream

- Early Care & Learning Subsidy (ECLS)
- Viability Assistance Program

2. Additional needs

- Special Early Care & Learning Subsidy (SECLS)
- Disadvantaged Communities Program
- Inclusion Support Program

3. Preschool

1. Mainstream funding - ECLS

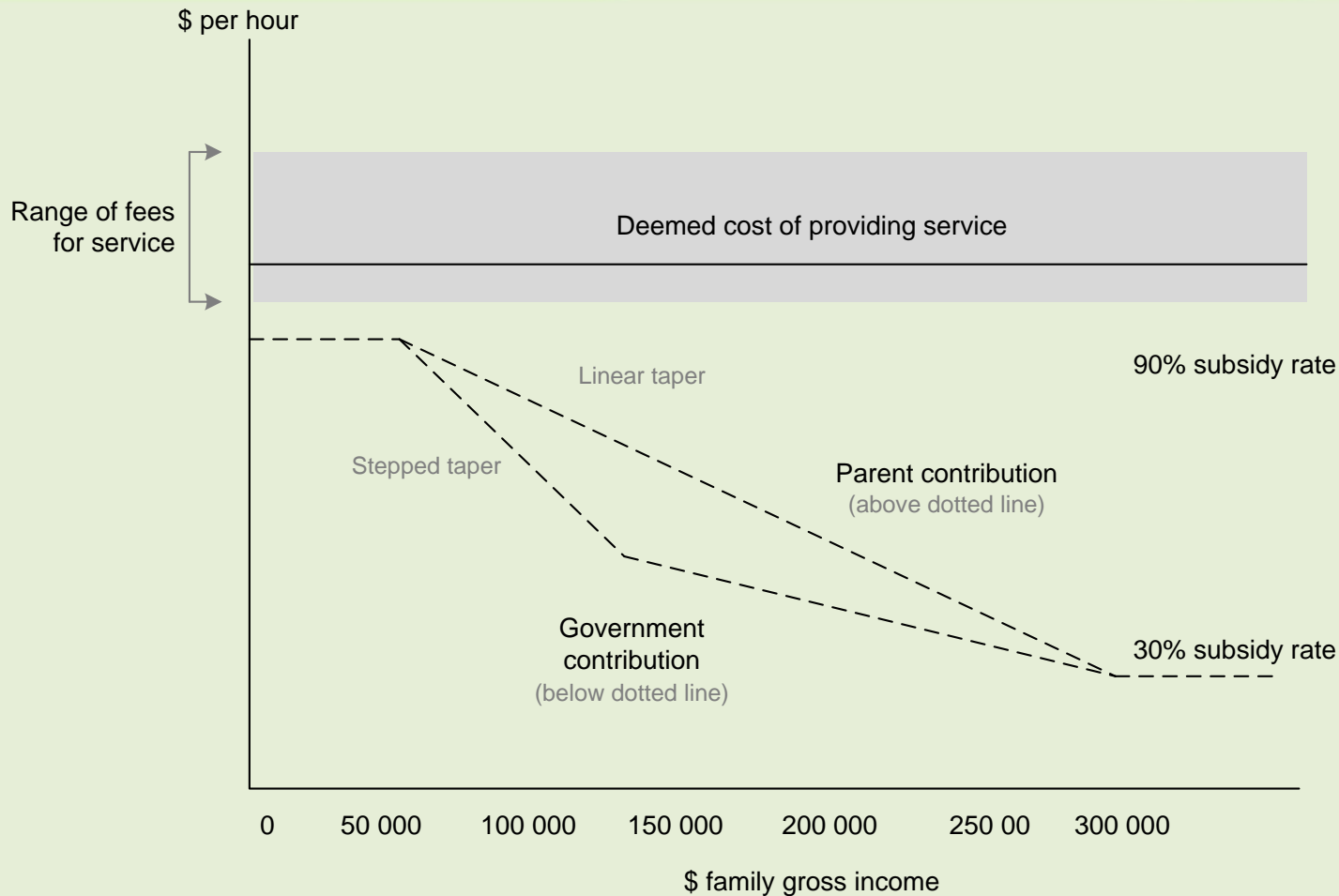
- A single child-based subsidy
- Centre-based & home-based (including approved nannies) services
- Up to 100 hours per fortnight
- Activity test of 24 hours per fortnight (with exemptions)
- Paid directly to providers – parents choice
- Family income
- No dollar cap on total amount of assistance
- Based on 'deemed' cost

A more sustainable payment

ECLS based on the **'deemed' cost**

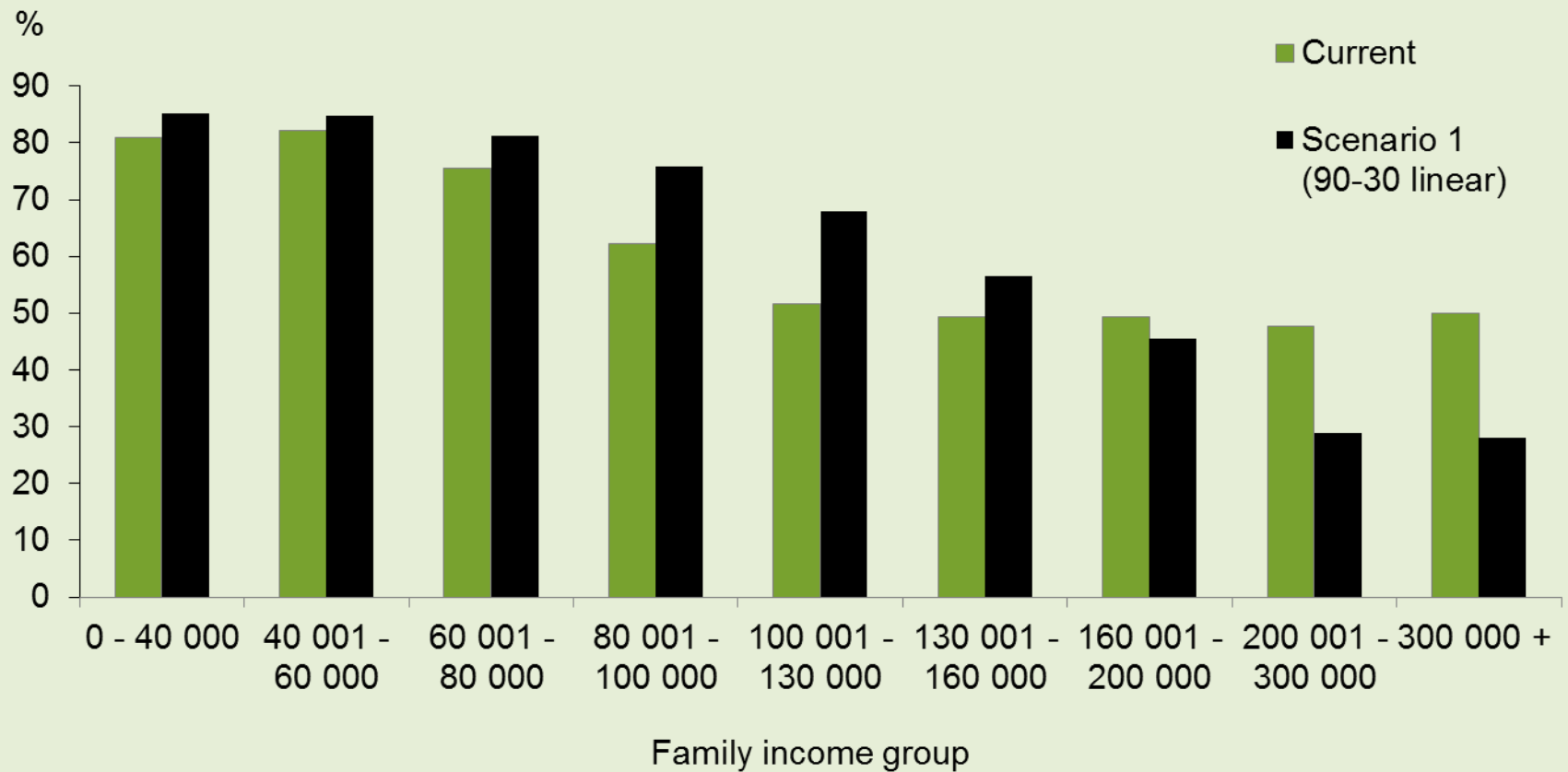
- Works as hourly cap on subsidy
 - Avoids CCR effect on work decisions
- Varies by service type and age of the child
 - Data suggest rent, staff costs similar by ARIA
- Based on cost/fees of reasonable standard
 - Avoids subsidising premium services
- Initially a cost model, indexed to ECEC wage
 - Move to benchmark market price model

ECLS – one simplified mainstream means-tested payment



A more affordable system for parents

Average rates of assistance



Rural, regional & remote Australia

A capped **Viability Assistance** Program

- Support providers (operating under child-based funding) when demand temporarily fall below financially viable levels
- Maximum of 3 in every 7 years
- Prioritised to centre-based care & mobile services

2. Additional needs children

Special Early Care and Learning Subsidy (SECLS)

- ECLS means-tested child-based payment of the deemed cost of mainstream services
- Plus **'top-up' child-based payment** for the **deemed cost** of delivering services to specific groups of children **based on their needs** (children assessed as at risk or with a diagnosed disability)
- 'top-up' should cover **100 hours/fortnight and up to 100% of deemed cost** of additional ECEC services

Inclusion Support Program (ISP) once-off grant to providers to build capacity for additional need children

100% of deemed cost for **'at risk' children**

Additional needs children: Disadvantaged communities

Block funding for **Disadvantage Communities Program**

- Short-term grant to transition to mainstream child-based funding where possible
- Start-up and sustainability payments where no viable labour market

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

- Payment to service for integration function

Summary of funding for children with additional needs

<i>Funding program</i>	<i>'at risk' children</i>	<i>Children with a disability</i>	<i>Highly disadvantaged communities</i>	<i>Indigenous children</i>	<i>Other additional needs</i>
ECLS	x	✓	✓	✓	✓
SECLS	✓ Covers full deemed cost	✓ Top-up only	x	✓ Top-up only	x
DCP – transitional	x	x	✓	✓	x
DCP – start-up & sustainability	x	x	✓	✓	x
DCP – integration	x	x	✓	✓	x
ISP	✓	✓	✓	✓	✓

3. Preschool funding

- **Continue \$per child support for universal access**
- Negotiate with state & territories to **incorporate preschool into the funding for schools**
- Regulate dedicated preschool under the relevant education legislation rather than the NQF
- Provide universal access payments directly to LDC centres – where LDCs do not receive such funding from the states & territories

More flexible and accessible ECEC

- ✓ Extended assistance to **approved nannies that satisfy the NQF**
- ✓ Allow au pairs to work for 12 months with one family (rather than 6 months only)
- ✓ **Abolish** requirements that specify **min or max operation weeks or hours** for approved services
- ✓ Remove caps on occasional care
- ✓ Promote existing FBT exemption for businesses to buy reserve places for children of their employees

More flexible and accessible ECEC cont.

- ✓ Improve access to OSHC
 - Schools to take responsibility for organising OSHC when sufficient demand
 - Extend OSHC to preschool
- ✓ Tailor NQF staff requirements
 - Requirement for **early childhood teacher based on number of children over 3 years** old in a service
 - Nationally **consistent staff ratio for OSHC**

Indicative annual expenditure on ECEC

Program area	2013-14 (\$ billion)	2014-15 to 2017-18 Budgeted average \$billion/year	Proposed Average \$billion/year
Mainstream use of ECEC services	5.7	7.1	6.9
Additional needs	0.6	0.5	0.7
Preschool access assistance	0.4	0.1	0.4
Total	6.7	7.7	8.0

Family case studies – changes in out-of-pocket costs for families

Single low income mother working 3 days a week, with 2 children under 5 years old

- gross salary of \$37 440 and receiving CCB, CCR and FTB part A
- both children attend LDC for 3 day per week at a cost of \$88 a day per child
- total out-of-pocket cost of childcare is currently \$112.66 per week
- under ECLS the family will be **better off by \$53 per week**

Couple family with father working full time and mother 2 days a week, with 2 children aged 3 and 6 years old:

- combined gross income of \$94,600
- the youngest child attends LDC 2 days a week at a cost of \$82 per day. the school aged child attends OSHC for 2 afternoons a week at a cost of \$15 a day.
- total out-of-pocket cost of childcare is currently \$58.62 per week
- under ECLS the family will be **better off by just under \$32 per week**

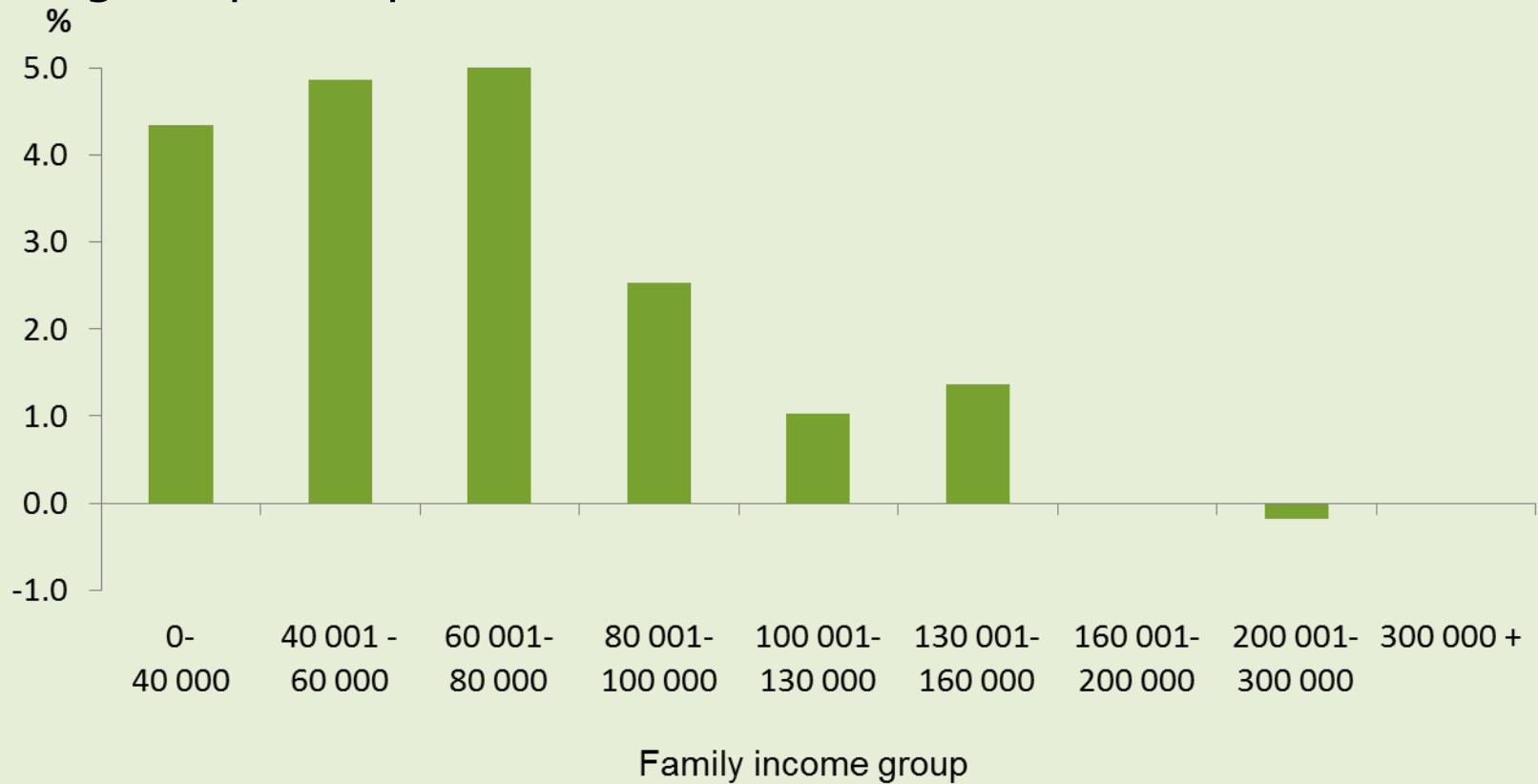
Family case studies cont.

Couple family both parents working full time, with 2 children under 5 years old and 1 child at school

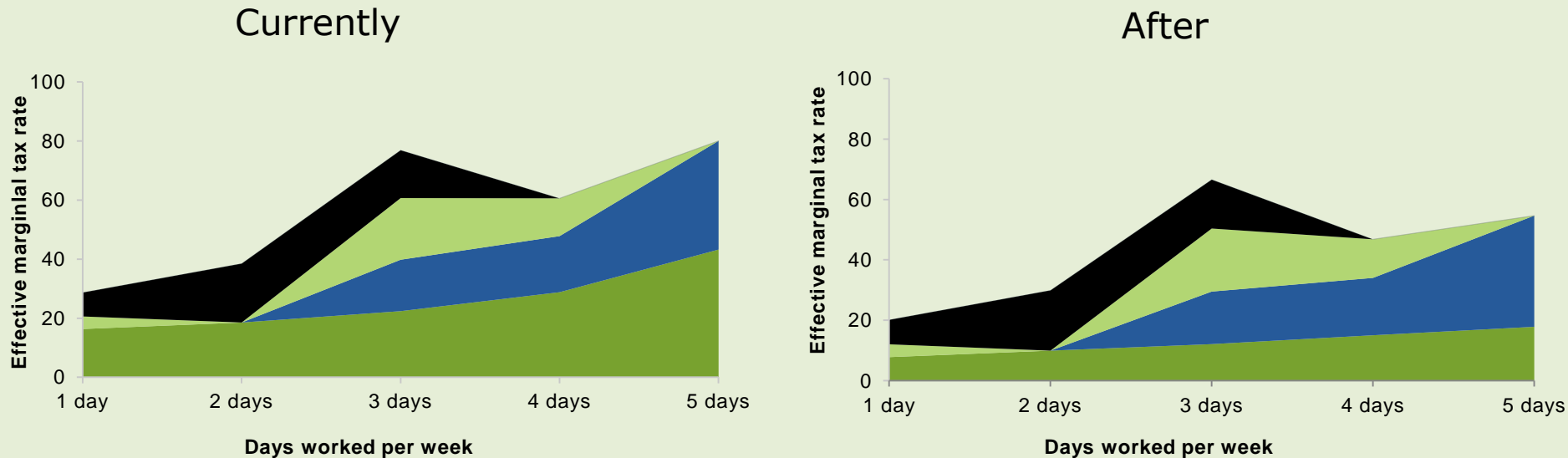
- Combined gross family income of \$286,800
- Both children under 5 years old attend LDC 5 days per week at a cost of \$110 a day per child (and, hit the CCR cap).
- The school aged child attend OSHC 5 days per week at a cost of \$18 a day
- Total out-of-pocket cost of childcare is currently \$856.54 per week
- Under ECLS the family will be **slightly worse off by around \$17 per week**
- Under ECLS the out-of-pocket cost of hiring an approved nanny (\$30 per hour for 55 hours a week) would be \$1390 per week

Promoting workforce participation

Change in participation rate of mothers



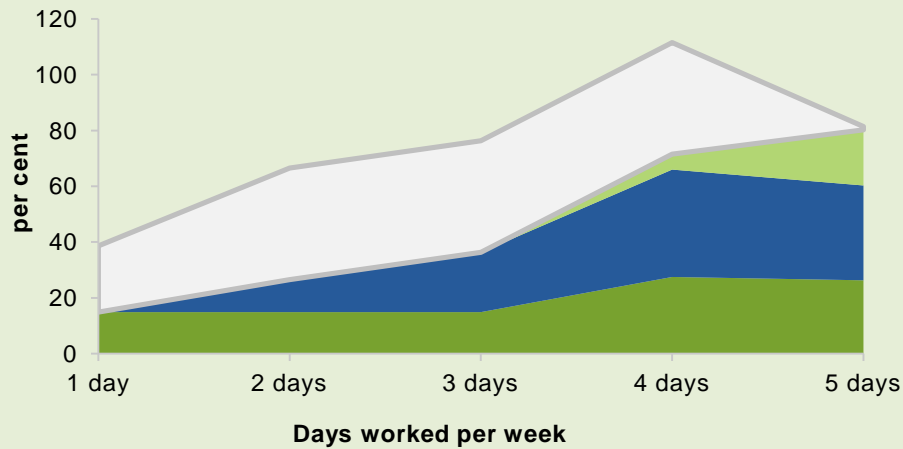
Change to childcare assistance can only do so much for workforce participation



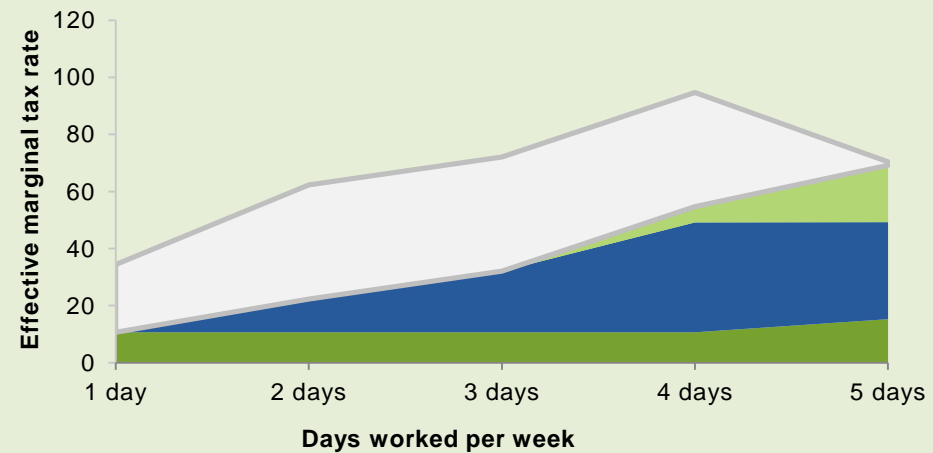
■ Withdrawal of childcare assistance
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 ■ FTB B withdrawal
 ■ Parenting payment withdrawal

Case study: single family 2 children EMTRs

Currently



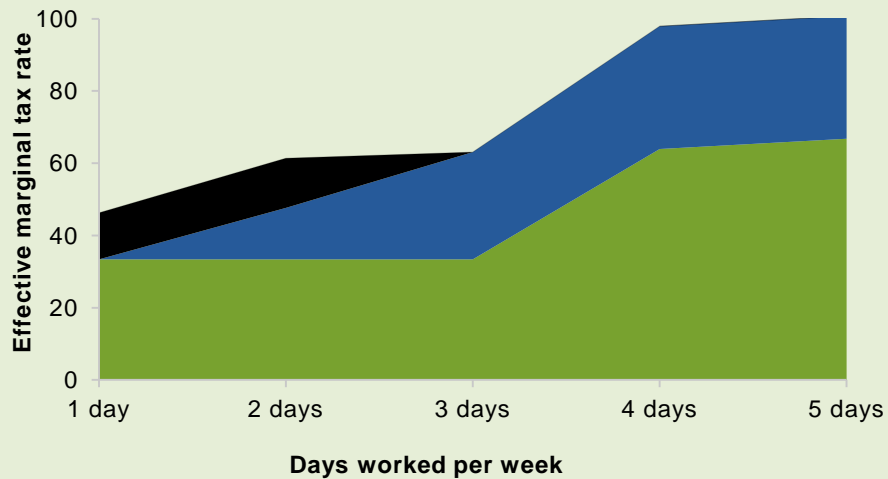
After



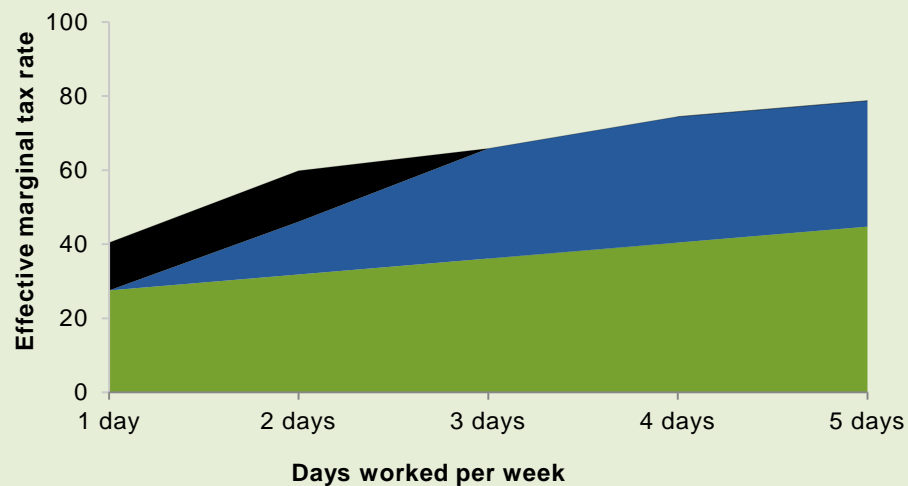
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Higher incomes can benefit with lower EMTRs

Currently



After



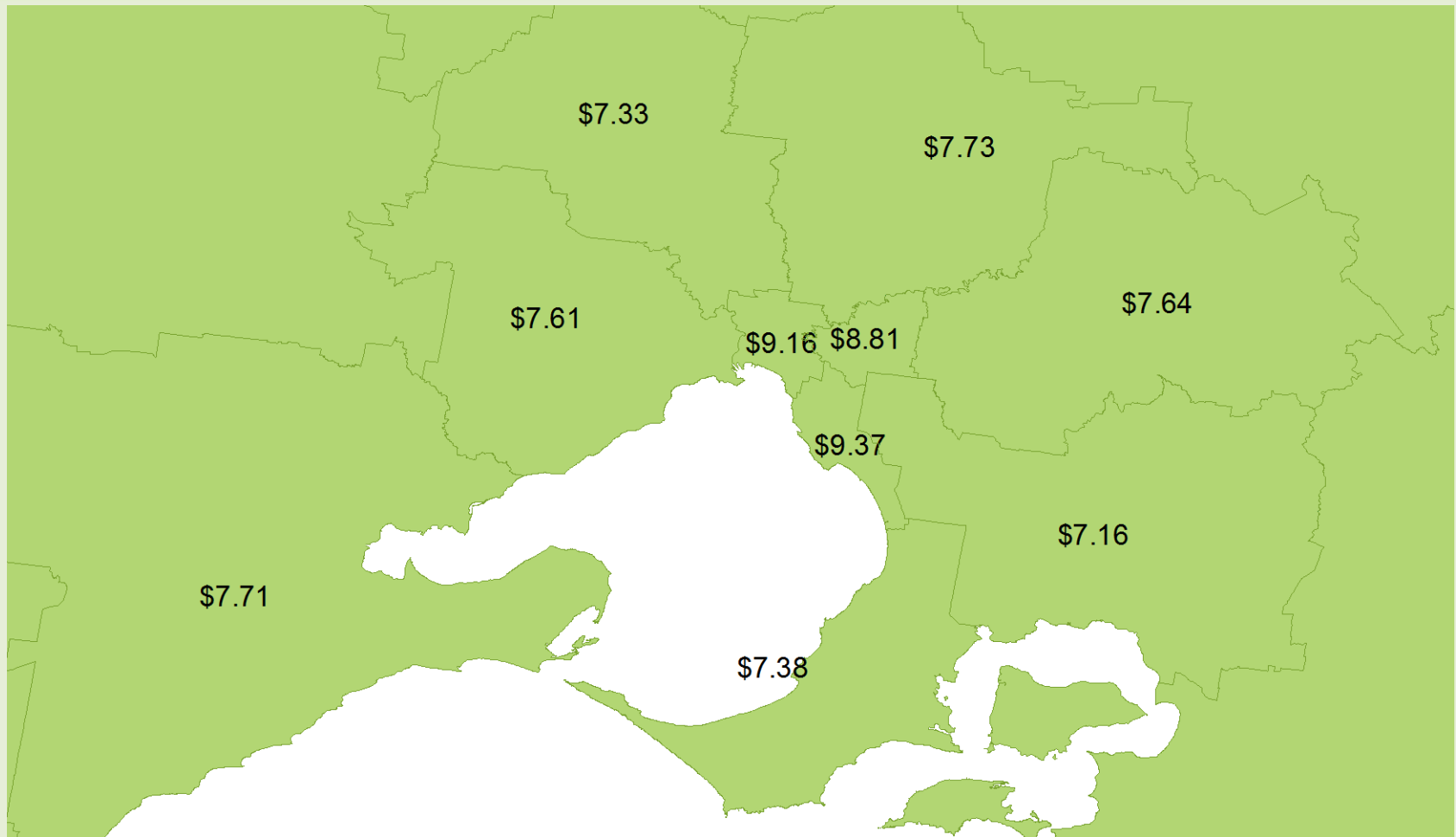
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Key issues raised in public hearings

- Qualifications for educators for children under 3 years of age
- The deemed cost of provision
- The activity/eligibility test
- Vulnerable and at risk children
- Family day care
- Preschool

Variation in median fees

Hourly fees for Long Day Care – September 2013

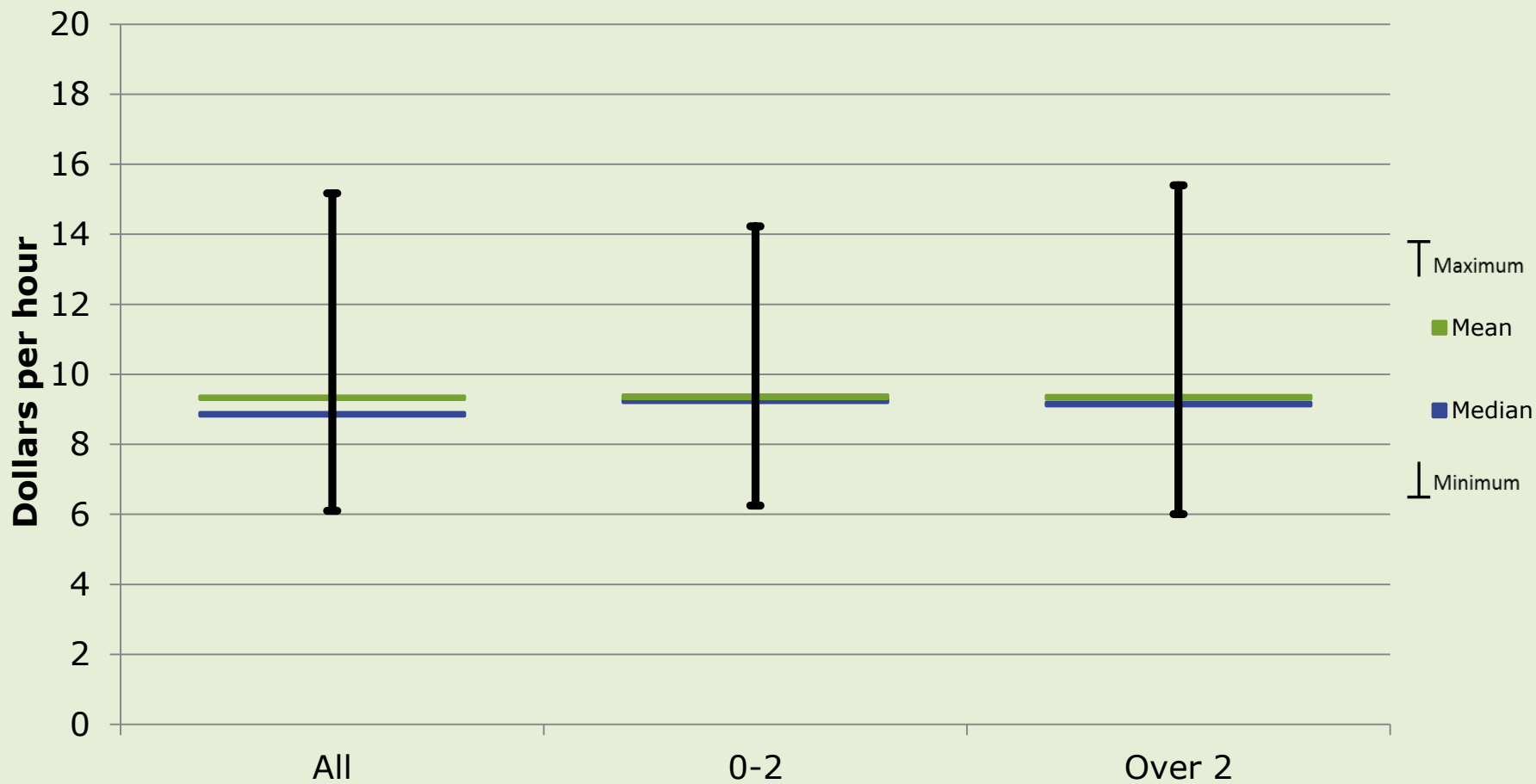


Fees vary within locations

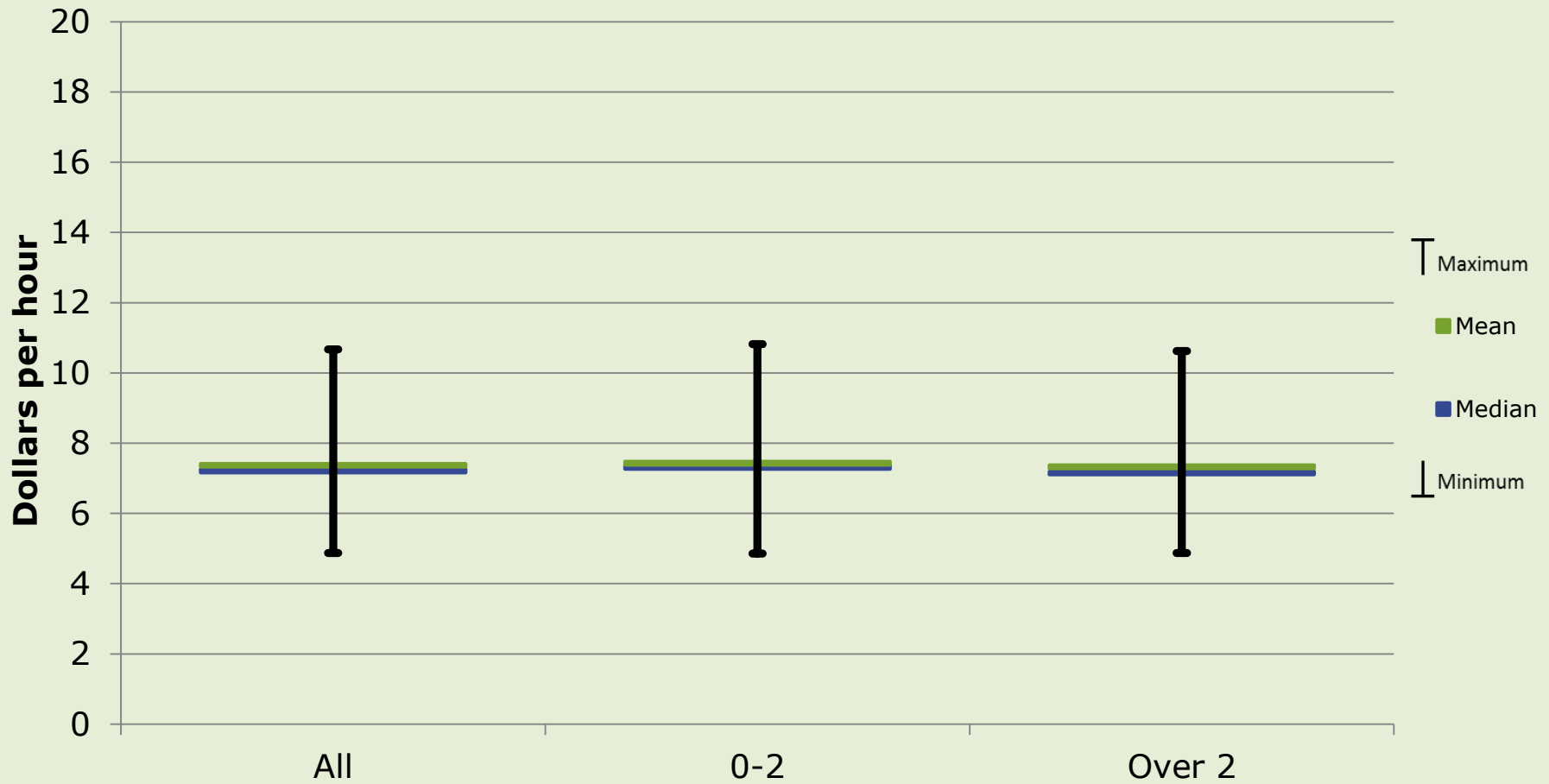


1. Inner Melbourne
2. South East Melbourne
3. Shepparton

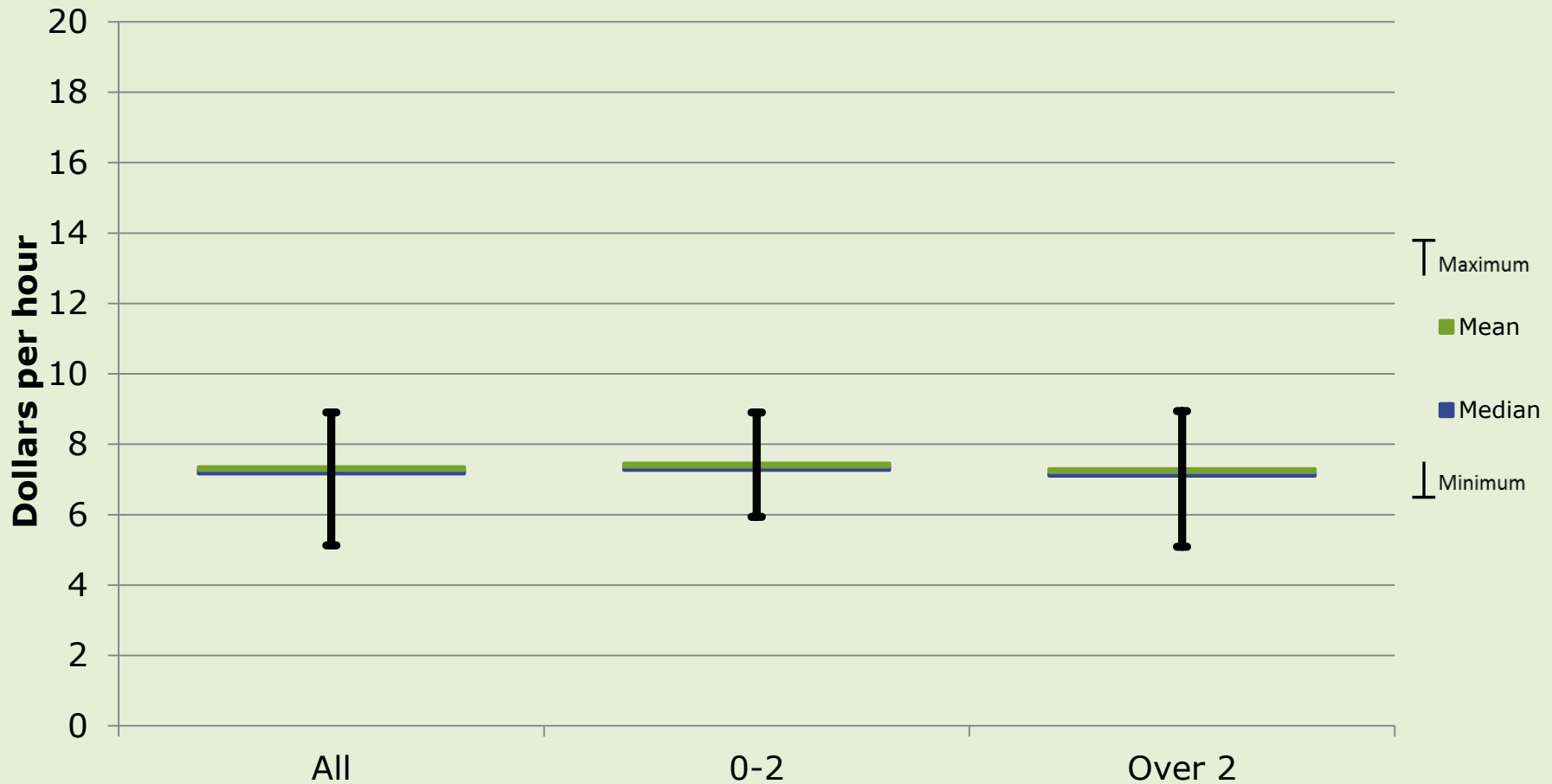
Hourly fee – Inner Melbourne



Hourly fee – South East Melbourne



Hourly fee – Shepparton



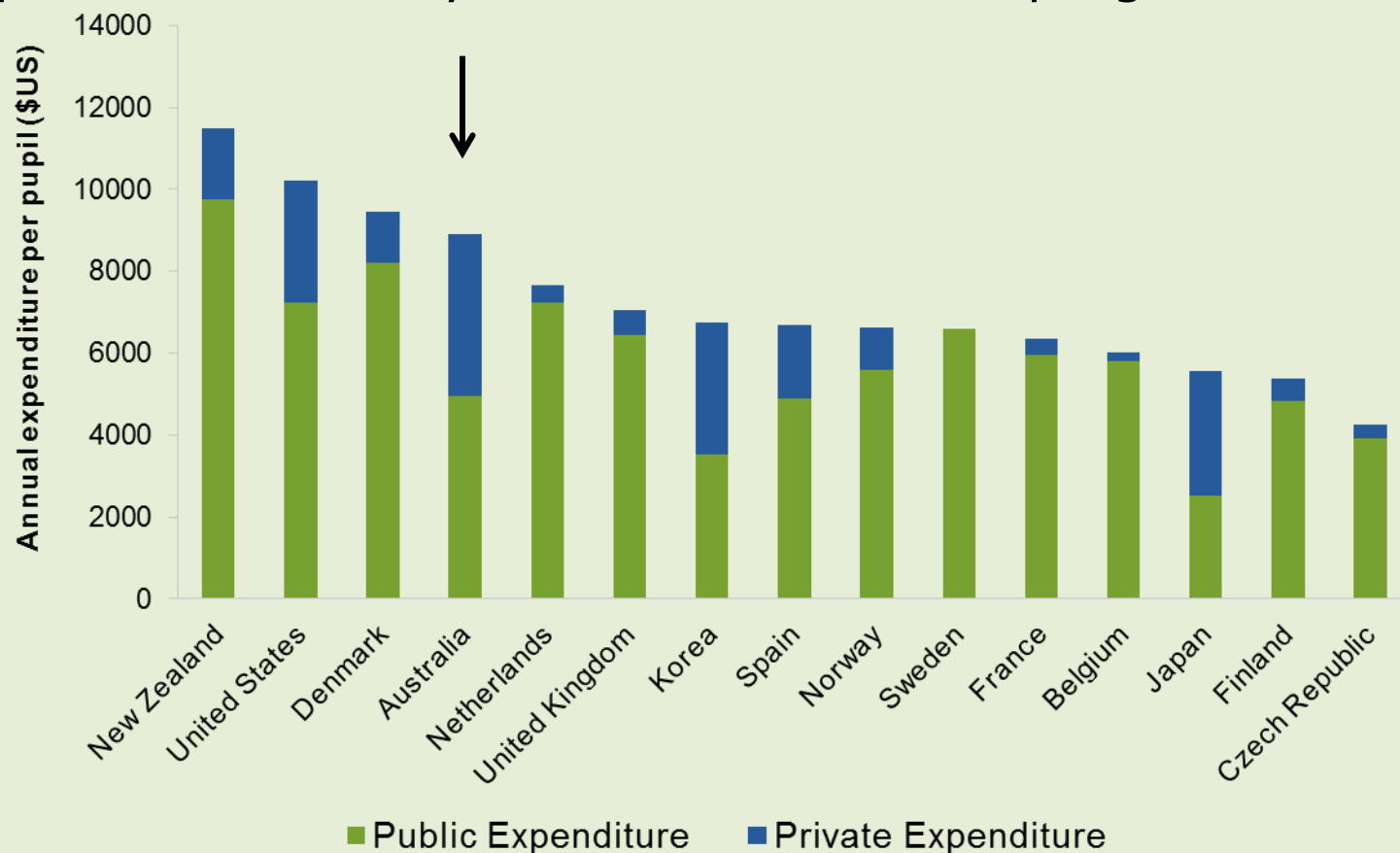
Childcare and Early Childhood Learning

- Draft report released Tuesday 22 July
- Public hearings - Perth, Port Macquarie, Sydney, Melbourne and Canberra: August
- Modelling roundtable: August
- Final submissions close: 5th September
- Final report to Government: 31st October

FOR WENDY ONLY

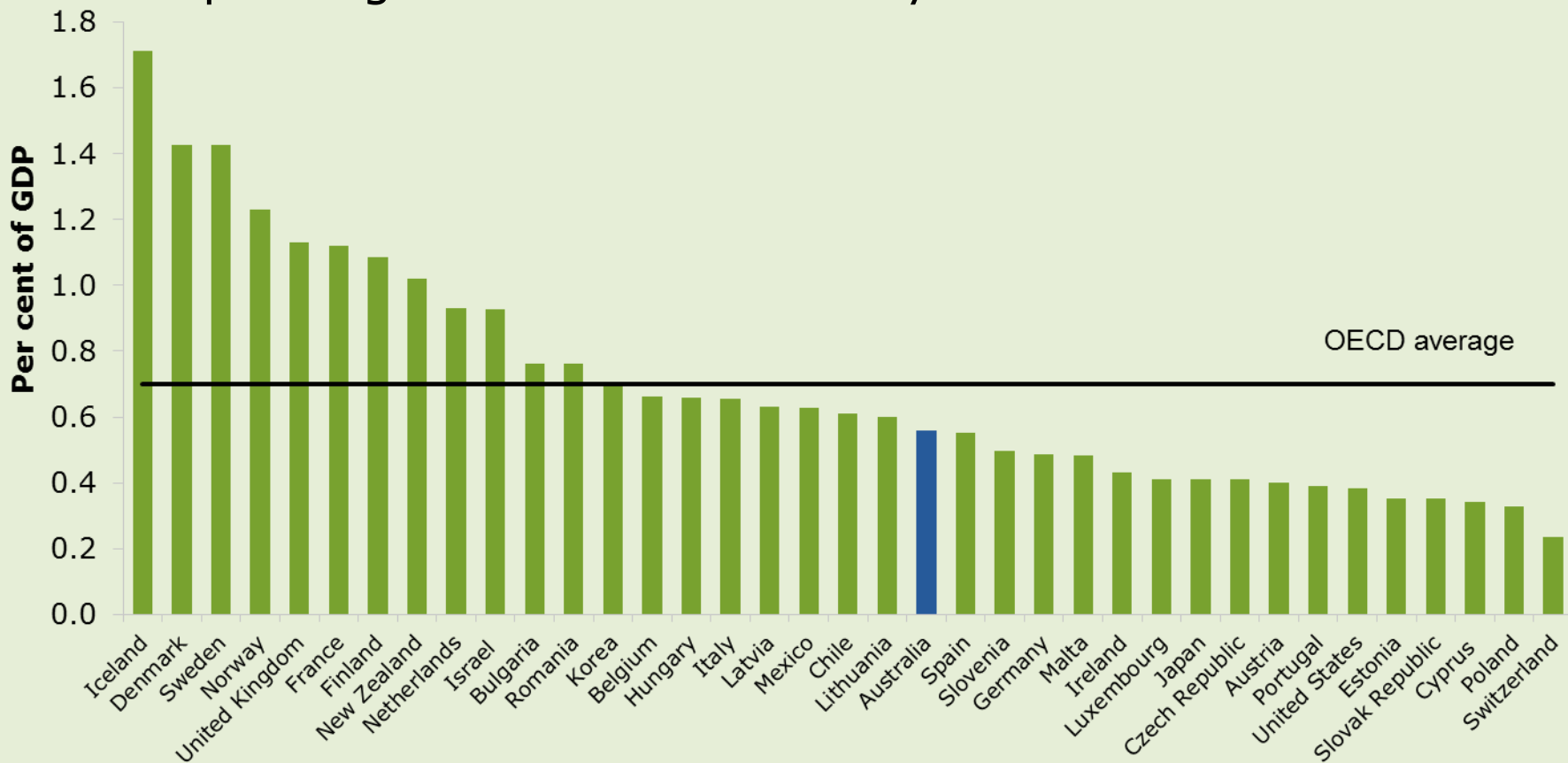
A user pays system of early childhood education

Expenditure on early childhood education programs



Australia spends less than the OECD average

Public spending on childcare and early education services



Likely outcomes compared with current mainstream approach (2013-14)

	Current	Scenario 1 90-30 Linear	Scenario 2 90-30 two-step	Scenario 3 90-0 linear	Scenario 4 90-0 two-step
Share of fees paid by parents (%)	37.6	29.9	39.7	35.9	42.1
Increase in ECEC use (% change in hrs per week)		20.1	5.9	10.2	3.4
Increase in hours worked by mothers (%)		3.6	1.5	2.3	1.3
GDP impact (\$ billion)		5.5	1.9	3.0	1.4
ECLS cost (\$ billion)	5.6	6.9	5.5	5.8	5.1
Change in Fiscal cost (\$ billion)		0.75	-0.38	-0.12	-0.73