

Chapter 2

Key issues

2.1 The National Quality Framework (NQF) aims to ensure the provision of high quality early childhood education and care (ECEC) services. Most submitters and witnesses to the childcare inquiry therefore supported the NQF's regulation of the ECEC sector.¹

2.2 However, the committee heard that there is still a wide variety and amount of regulation affecting the ECEC sector.² The Australian Childcare Alliance (NSW) warned that 'regulatory requirements usually come at a cost' and can become 'burdensome, excessive and/or arguably counter-productive'.³ The Centre for Independent Studies (CIS) similarly submitted that regulation can comprise red tape if it is ineffective or inefficient:

Even where a policy objective is recognised as important (for example, early childhood development), some or all of the regulations implementing the policy may be red tape if they are ineffective or an inefficient way to achieve the desired objective.⁴

2.3 This chapter discusses the following matters raised during the inquiry:

- NQF and regulatory reduction;
- the Family Day Care (FDC) sector;
- staffing regulations;
- regulatory compliance costs; and
- fee assistance and the Child Care Subsidy.

NQF and regulatory reduction

2.4 The Australian Children's Education and Care Quality Authority (ACECQA) submitted that the NQF has improved ECEC regulation through the creation of a nationally unified system. This system replaced eight state and territory regulatory models plus a partially overlapping national quality assurance regulatory scheme administered at the Commonwealth level:

1 For example: The Parenthood, *Submission 1*, p. 1; Australian Community Children's Services, *Submission 3*, pp. 1 and 5; Community Child Care Association, *Submission 4*, pp. 4–5; United Voice, *Submission 9*, p. 1; Michael Tizard, Chief Executive Officer, The Creche and Kindergarten Association, *Committee Hansard*, 12 June 2018, p. 41.

2 For example: Eugenie Joseph, Senior Policy Analyst, Centre for Independent Studies, *Committee Hansard*, 12 June 2018, p. 1; Chiang Lim, Chief Executive Officer, Australian Childcare Alliance (NSW), *Committee Hansard*, 12 June 2018, p. 9.

3 Australian Childcare Alliance (NSW), *Submission 8*, p. 4.

4 Centre for Independent Studies, *Submission 13*, p. [4].

Prior to the NQF, requirements...were often duplicated...Expectations were inconsistent...with varying standards for service types, ratio and qualification requirements. Information flows between the nine regulators were highly restricted...A provider operating across multiple jurisdictions and regulators could find themselves needing to comply with multiple but slightly varying paperwork, notification and record keeping obligations both within a single jurisdiction...or between jurisdictions.⁵

2.5 Both ACECQA and the Department of Education and Training (Department) argued that ongoing review ensures the NQF delivers 'quality outcomes for children, while balancing the need to reduce red tape and unnecessary administrative burden for approved providers and educators'.⁶

2.6 Not all submitters agreed that the NQF has improved national consistency or reduced regulatory burden,⁷ with some expressing concern about increasing amounts and costs of regulation. The CIS, for example, submitted:

The childcare sector in Australia has been characterised by growing government intervention in recent decades, culminating in the introduction of the National Quality Framework (NQF). Inevitably, this has precipitated new forms of red tape for the sector. Many of the NQF regulations entail significant administrative and compliance costs, while many of the cited benefits are contestable and not based on compelling evidence.⁸

2.7 Family Day Care Australia (FDCA), for example, argued that its sector has been adversely affected, resulting in 'excessive administrative burden, service closures and a decrease in high level quality ratings'.⁹ Australian Childcare Alliance referred to certain 'onerous' reporting requirements and stated:

...the government must acknowledge the increase of paperwork and stress that has been introduced to the sector over the past 10 years. It is disappointing when our governing body minimises this by stating that paperwork has reduced.¹⁰

5 Australian Children's Education and Care Quality Authority, *Submission 5*, p. 4.

6 Australian Children's Education and Care Quality Authority, *Submission 5*, p. 6. Also see: Department of Education and Training, *Submission 10*, p. 14.

7 For example: Australian Childcare Alliance, *Submission 7*, p. 9, which argued that different interpretations of the National Law and National Regulations has created inconsistencies within and across jurisdictions.

8 Centre for Independent Studies, *Submission 13*, p. [3] and Attachment 1.

9 Family Day Care Australia, *Submission 6*, p. 3.

10 Australian Childcare Alliance, *Submission 7*, p. 11.

Family Day Care sector

2.8 Several witnesses supported a flexible childcare market that provides children with the formal or informal care that best suits their family circumstances.¹¹ For example, Andrew Paterson, Chief Executive Officer of FDCA, advised that FDC is an option of choice for many Australian families (currently, about 185 000 children; 14.5 per cent of children in formal care). He explained that FDC provides:

...quality flexible early childhood education and care in small groups, in a natural home learning environment. The sector is unique in its capacity to service the diverse and disparate needs of children, families and communities. Family day care is the only approved service type that can effectively and efficiently deliver non-standard-hours care, including weekends and overnight, and is heavily represented among regional, rural and remote communities and amongst some of the most socio-economically disadvantaged segments of Australian society.¹²

2.9 Mr Paterson detailed how the FDC sector has been challenged by a significant increase in regulation, coupled with a decline in operational funding. This funding previously supported FDC services in providing FDC educators (who are largely small business operators) with regulatory support. Mr Paterson indicated that the sector has been struggling with regulatory compliance with consequent effects on many small businesses:

...since making our submission, we have seen quality services who have battled to remain viable and, confused by the constantly changing regulatory landscape, being disproportionately sanctioned for administrative noncompliance and forced out of the sector for administrative error rates of less than one per cent over two years.¹³

2.10 In its submission, FDCA mentioned two particular concerns: coordinator-to-educator ratios (1:25) and caps on the number of educators registered with an approved service. These caps were introduced as part of the 2017–2018 changes to the NQF and are determined by the regulatory authority in each jurisdiction:

[These are] an example of excessive regulatory restriction of market competition which ultimately will universally limit the number of educators within family day care services across Australia and affect the choices

11 For example: Eugenie Joseph, Senior Policy Analyst, Centre for Independent Studies, *Committee Hansard*, 12 June 2018, pp. 2 and 7; Dr Jennifer Buckingham, Senior Research Fellow, Centre for Independent Studies, *Committee Hansard*, 12 June 2018, p. 2; Dr Emma Cannen, Policy and Stakeholder Manager–Big Steps, United Voice, *Committee Hansard*, 12 June 2018, p. 22; Gillian Mitchell, Group Manager, Transition and Engagement Group, Department of Education and Training, *Committee Hansard*, 12 June 2018, pp. 55–56.

12 Andrew Paterson, Chief Executive Officer, Family Day Care Australia, *Committee Hansard*, 12 June 2018, p. 8.

13 Andrew Paterson, Chief Executive Officer, Family Day Care Australia, *Committee Hansard*, 12 June 2018, p. 9. Also see: pp. 10–11, where Mr Paterson explained that operational costs are ultimately passed on to families.

available to Australian families...educator caps unfairly limit family day care educators' ability to choose a service to register with and has the potential to severely limit the viability of the family day care sector. Family day care services are businesses like any others and legitimate expansion needs to be an option to remain viable in a competitive, demand driven and dynamic market.¹⁴

2.11 In relation to these concerns, Gabrielle Sinclair, Chief Executive Officer of ACECQA, advised that the Council of Australian Governments (COAG) Education Council will shortly report to COAG on ways to better support FDC educators. Conceding that these educators are isolated, Ms Sinclair said:

I'm quite anxious to see this report and to see whether there could be something else that we haven't thought of that would help them. Maybe it means that we have to put some more in to their professional learning and support, or maybe it's something that could be a little bit simpler and less expensive. At this stage, I know that many family day care providers have decided to close up shop because they say that families choose to go to long day care.¹⁵

Department response

2.12 Asked for its response, the Department's representative commented on the amount of work recently conducted to address sharp practices in the FDC sector (such as the claiming of benefits for non-existent enrolments). The officer said that 'the government is very committed to the family day care sector', the majority of suppliers being 'honest, hardworking people providing excellent service to families'.¹⁶

2.13 The officer agreed that the FDC sector could be more price competitive than long day care (LDC) but cautioned that this was not yet certain:

The numbers, largely because of the problems we've had recently, haven't borne that out. In fact...the average cost per hour for family day care was similar to and sometimes higher than long day care... It is cheaper now but not a great deal. The last data we had has long day care averaging about \$9.20 an hour and family day care at \$8.80...Family day care, at the bottom end of a quite skewed bell curve, is quite a bit cheaper generally than long

14 Family Day Care Australia, *Submission 6*, p. 7. Also see: Australian Children's Education and Care Quality Authority, *Requirements for Family Day Care Providers, From 1 Oct 2017*, Information Sheet, <https://www.acecqa.gov.au/resources/supporting-materials/family-day-care> (accessed 8 August 2018).

15 Gabrielle Sinclair, Chief Executive Officer, Australian Children's Education and Care Quality Authority, *Committee Hansard*, 12 June 2018, p. 50.

16 Jeff Willing, Branch Manager, Payment Policy and Implementation Branch, Department of Education and Training, *Committee Hansard*, 12 June 2018, p. 54. Also see: p. 53; Gillian Mitchell, Group Manager, Transition and Engagement Group, Department of Education and Training, *Committee Hansard*, 12 June 2018, p. 53, who noted that there are strengthened compliance capabilities in the new IT system.

day care. It's because of the overheads being cheaper. Why are people leaving it? There are various reasons. They may or may not be viable.¹⁷

Committee view

2.14 The committee supports the availability of flexible childcare options for Australian families and is concerned by claims that the viability of small businesses in the FDC sector is under threat. Ultimately, this impacts both the availability and affordability of child care and is contrary to families' needs and Australian Government policy. The committee suggests that the Australian Government should demonstrate its commitment to the FDC sector by working toward red tape reductions as part of COAG's current review process.

2.15 The committee cannot see why FDC is not offering substantially lower cost childcare options to benefit a wide range of families which struggle to fund LDC. Its conclusion is that bureaucracy and red tape are seriously increasing the cost of FDC and impeding the viability of the sector.

Recommendation 1

2.16 The committee recommends the Australian Government, through the Council of Australian Governments, expeditiously work toward reducing the regulatory burden in the Family Day Care sector, including by removing limits on the number of educators in each service.

Staffing regulations

2.17 More broadly, submitters and witnesses commented at length on two particular staffing regulations—ratios and qualifications—which are mandated by the NQF and which vary across jurisdictions. The CIS submitted that these regulations are burdensome as labour-related costs account for over 60 per cent of approved providers' total operating expenses. For example, with educator-to-child ratios, 'centres have to employ more staff and, obviously, that leads to increased wage costs which are passed onto parents'.¹⁸ Its submission cautioned:

In the absence of any efforts to lighten the burden of regulations, labour and regulatory costs can be expected to continue rising over time. This will flow through to higher childcare fees and, consequently, the more generous Child Care Subsidy, coming into effect from 2 July 2018, will be less effectual than desired in improving childcare affordability.¹⁹

Ratio requirements

2.18 Some information presented to the childcare inquiry questioned the rationale for ratios in the ECEC sector. Chiang Lim, Chief Executive Officer of Australian

17 Jeff Willing, Branch Manager, Payment Policy and Implementation Branch, Department of Education and Training, *Committee Hansard*, 12 June 2018, p. 55.

18 Eugenie Joseph, Senior Policy Analyst, Centre for Independent Studies, *Committee Hansard*, 12 June 2018, p. 3.

19 Centre for Independent Studies, *Submission 13*, p. [8].

Childcare Alliance (NSW), and FDCA noted that, prior to implementation of the NQF, there was variation between jurisdictions.²⁰

2.19 In addition, some submitters and witnesses queried the evidence-base for the current ratios (educator-to-child; coordinator-to-educator; et cetera).²¹ Dr Buckingham said that ratios are sensible for very young children but less so for older children whose care needs are fewer.²² FDCA commented that 'there is no evidence that indicating a specific ratio of coordinators to educators will promote the best outcomes for children'.²³

2.20 Australian Childcare Alliance indicated that, in at least one jurisdiction, there has been inadequate cost/benefit analysis of ECEC regulation:

[Introduction of the 1:5 ratio for two to three years old children] resulted in many services charging higher fees for this age group...Minimal NSW-centric analysis appears to have been undertaken at the time to investigate how these costs would be covered by childcare services and/or how such costs would be passed on as increased fees to parents. The resulting reduction in the availability of affordable childcare places in the under 3 age group also does not appear to have been considered.²⁴

2.21 Ms Sinclair from ACECQA said that the current ratio requirements are based on world's best practice—such as identified in the E4Kids study conducted by the Melbourne Graduate School of Education at the University of Melbourne.²⁵ However, the committee notes that when the Productivity Commission examined educator-to-child ratios it reported:

The key policy challenge regarding these ratios and qualifications is that it is impossible to tell whether they have been set at appropriate levels. This is

20 Chiang Lim, Chief Executive Officer, Australian Childcare Alliance (NSW), *Committee Hansard*, 12 June 2018, p. 14; Michael Farrell, National Policy and Advocacy Manager, Family Day Care Australia, answers to question on notice, undated (received 4 July 2018).

21 For example: Dr Jennifer Buckingham, Senior Research Fellow, Centre for Independent Studies, answers to question on notice, 12 June 2018 (received 12 June 2018).

22 Dr Jennifer Buckingham, Senior Research Fellow, Centre for Independent Studies, *Committee Hansard*, 12 June 2018, p. 6. Also see: Dr Emma Cannen, Policy and Stakeholder Manager—Big Steps, United Voice, *Committee Hansard*, 12 June 2018, p. 20, who emphasised that ratios are also intended to provide young children with quality interactions with educators.

23 Family Day Care Australia, *Submission 6*, p. 8. The submission highlighted that family day care services consider many factors when determining the best ratios for individual services and educators. Also see: Australian Children's Education and Care Quality Authority, 'Educator to child ratios', <https://www.acecqa.gov.au/nqf/educator-to-child-ratios> (accessed 8 August 2018).

24 Australian Childcare Alliance, *Submission 8*, p. 8. Also see: Australian Childcare Alliance (NSW Branch), *Submission 8*, p. 7.

25 Gabrielle Sinclair, Chief Executive Officer, Australian Children's Education and Care Quality Authority, *Committee Hansard*, 12 June 2018, p. 48. Also see: E4Kids, https://education.unimelb.edu.au/news_and_activities/projects/E4Kids (accessed 8 August 2018).

because there is limited evidence to support specific settings for these requirements or to reliably quantify their benefits.²⁶

Qualification requirements

2.22 Some submitters and witnesses raised the issue of qualification requirements. The NQF sets out minimum qualifications for persons working in centre-based and FDC services, as well as school-aged children in out of school hours care services.²⁷ For example, in a centre-based service half the educators required to meet the educator-to-child ratio must have, or be working toward, a diploma level qualification. All other educators must have, or be working toward, a relevant Certificate III qualification.²⁸

2.23 The CIS, for example, contended that the costs of this regulation outweigh its benefits, with Dr Buckingham stating that there is no evidence of higher qualifications improving outcomes for children. She explained:

There are some social and behavioural impacts, at least in the short term, but very little evidence of any cognitive benefits in terms of vocabulary, literacy and numeracy skills—those sorts of things. Any tiny impacts that are found are generally not found to be durable so when [they are] followed up three or four years later those effects have washed out.²⁹

2.24 In contrast, Dr Cannen from United Voice argued that strong evidence 'directly links qualifications of educators and teachers to higher NAPLAN scores in year 3 and better performance at age 15'. Dr Cannen referred to research conducted by Dr Dianna Warren and others in relation to:

...how the number of words that children hear has a direct impact on them cognitively, emotionally and socially. This is the 'iron triangle' for higher quality early education, which is to do with ratios, qualifications and group sizes. That formula is based on years of international research, including OECD reports—several *Starting strong* reports—which indicate things like

26 Productivity Commission, *Childcare and Early Childhood Learning*, Inquiry Report No. 73, 31 October 2014, p. 257, <http://www.pc.gov.au/inquiries/completed/childcare/report> (accessed 8 August 2018).

27 Australian Children's Education and Care Quality Authority, 'Qualification requirements', <https://www.acecqa.gov.au/qualification-requirements> (accessed 8 August 2018).

28 Australian Children's Education and Care Quality Authority, 'Qualifications for centre-based services with children preschool age or under', <https://www.acecqa.gov.au/qualifications/requirements/children-preschool-age-or-under> (accessed 8 August 2018).

29 Dr Jennifer Buckingham, Senior Research Fellow, Centre for Independent Studies, *Committee Hansard*, 12 June 2018, p. 2. Dr Buckingham noted that most studies examine aggregates rather than the underlying demographics, and so do not target those children who would most benefit from early childhood education and care: p. 3.

our National Quality Framework is integral to providing the best education and care for our children.³⁰

2.25 Ms Samantha Page, Chief Executive Officer of Early Childhood Australia (ECA), agreed that, for children in formal care:

...it's really important that the staff that work in that setting have early childhood qualifications. That is well documented in research... Qualifications make a difference, ratios make a difference, group size makes a difference, and the quality of the setting and the environment that is available to the children makes a difference, and that's why we have national quality standards.³¹

2.26 ACECQA's representative, Ms Sinclair, acknowledged that qualifications are not the only criterion: 'what we want in the ideal world is people who love children, are experienced and also have the qualification'.³² In relation to the evidence-base, she said:

...the international evidence looks at the quality from the perspective of the iron triangle—that is, qualifications of staff, child-to-educator ratio and group size...those three things don't change...[Further] the research over the last 50 to 60 years has shown that class size and educator-to-child ratios are very significant for young children and children with disability.³³

2.27 The committee further notes the following comment from the Productivity Commission:

The evidence that specific levels of qualifications improve the learning and development outcomes for children under 3 years of age is absent and evidence of positive impacts of qualifications, by themselves, is inconclusive.³⁴

30 Dr Emma Cannen, Policy and Stakeholder Manager—Big Steps, United Voice, *Committee Hansard*, 12 June 2018, p. 19. Also see: Dr Emma Cannen, Policy and Stakeholder Manager, Big Steps, United Voice, answers to question on notice, 3 July 2018 (received 4 July 2018), which described various studies linking qualifications to better outcomes.

31 Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 12 June 2018, p. 31. Also see: Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 12 June 2018, p. 31 and Prue Warrilow, National Convenor, Australia Community Children's Services, *Committee Hansard*, 12 June 2018, p. 43, who argued that qualifications teach people how to look after children in a non-home environment.

32 Gabrielle Sinclair, Chief Executive Officer, Australian Children's Education and Care Quality Authority, *Committee Hansard*, 12 June 2018, p. 49.

33 Gabrielle Sinclair, Chief Executive Officer, Australian Children's Education and Care Quality Authority, *Committee Hansard*, 12 June 2018, pp. 47–48.

34 Productivity Commission, *Childcare and Early Childhood Learning*, Inquiry Report No. 73, 31 October 2014, p. 264, <http://www.pc.gov.au/inquiries/completed/childcare/report> (accessed 8 August 2018).

Committee view

2.28 The committee notes the variation in staffing regulations as permitted under the National Quality Framework. The committee acknowledges that there is a rationale for imposing staffing ratios but is not convinced that the current policy settings are correct. The committee notes that there is insufficient evidence in this area, as highlighted by the Productivity Commission in its 2014 report *Childcare and Early Childhood Learning*.

2.29 The committee recognises that there are various views about the value of staffing qualifications in ECEC, particularly across different age groups. In relation to the youngest cohorts of children, the committee heard that while there is some international evidence to support the current regulation, the committee is mindful that not so long ago (2014) the Productivity Commission was critical of the evidence-base for these cohorts. The committee suggests that it would be prudent to establish a sound evidence-base to promote the relationship between staffing qualifications and children's outcomes, and to avoid the perception of that regulation being unnecessary red tape.

2.30 The committee further notes that an alternative to formal child care is for children to remain at home with their parents who usually have no formal qualifications in early childhood education. Arguments in support of higher qualifications for childcare workers, if they result in fewer children receiving early childhood education due to resulting costs, cannot be supported.

Recommendation 2

2.31 The committee recommends that the Australian Government, through the Council of Australian Governments, promote and/or develop an evidence-base for staffing ratios and staffing qualifications in early childhood education and care, as a quality component of the National Quality Framework.

Recommendation 3

2.32 The committee recommends that, following establishment of the evidence-base for staffing ratios and staffing qualifications in early childhood education and care, the principles of the National Quality Framework be reviewed to ensure they appropriately reflect the evidence-base.

Recommendation 4

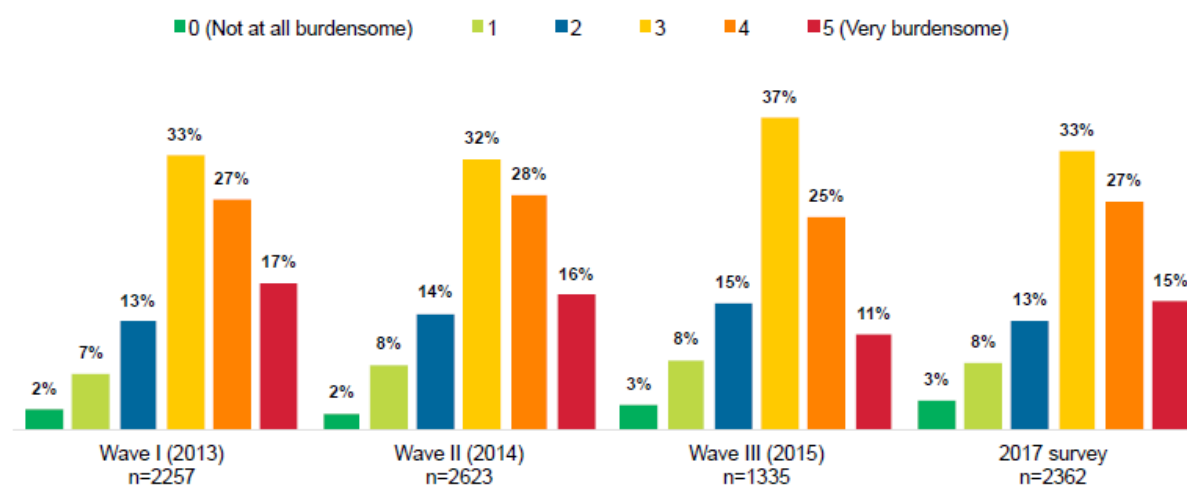
2.33 The committee recommends that, in reviewing the principles of the National Quality Framework, Australian, state and territory governments recognise that formal qualifications are not the only prerequisite for the provision of high quality child care, as this can also be provided by parents.

Regulatory compliance costs

2.34 Since 2013, there have been a number of inquiries or surveys about regulation in the ECEC sector. ACECQA, for example, measures approved providers' perceptions of administrative burden, which it and ELACCA argued enable identification of and reduction in burdensome regulation.³⁵

2.35 In its latest performance report, ACECQA highlighted strong support for the NQF (97 per cent), as well as a high perception of regulatory burden (Figure 2.1).³⁶

Figure 2.1: Perception of overall burden, 2013–2017



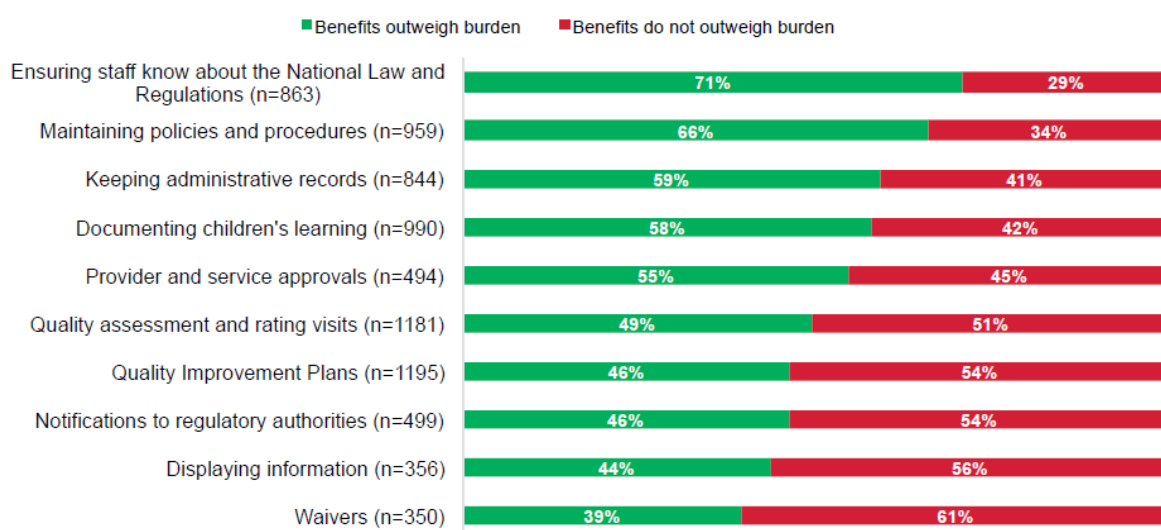
Source: ACECQA, *National Partnership Annual Performance Report, National Quality Agenda, December 2017*, p. 73.

2.36 According to ACECQA, approved providers identified six administrative areas as creating the most regulatory burden,³⁷ five of which were considered more beneficial than burdensome (Figure 2.2).

35 Australian Children's Education and Care Quality Authority, *Submission 5*, p. 5; Early Learning and Care Council, *Submission 12*, p. 3.

36 Australian Children's Education and Care Quality Authority, *National Partnership Annual Performance Report, National Quality Agenda*, December 2017, Chapter 6, pp. 71–73, <https://www.acecqa.gov.au/sites/default/files/2018-02/NationalPartnershipAnnualPerformance.pdf> (accessed 8 August 2018).

37 Australian Children's Education and Care Quality Authority, *National Partnership Annual Performance Report, National Quality Agenda*, December 2017, Chapter 6, p. 4, <https://www.acecqa.gov.au/sites/default/files/2018-02/NationalPartnershipAnnualPerformance.pdf> (accessed 8 August 2018).

Figure 2.2: Provider perceptions, administrative burden, specific requirements

Source: ACECQA, *National Partnership Annual Performance Report, National Quality Agenda, December 2017*, p. 75.

2.37 Some submitters and witnesses considered that the benefits of quality ECEC outweigh the regulatory burden.³⁸ ACCS and Michael Tizard, Chief Executive Officer of The Creche and Kindergarten Association (C&K) observed also that perceptions of administrative burden have declined over time.³⁹

2.38 However, Australian Childcare Alliance (NSW) submitted that its own *Annual Early Learning and Childcare Services Survey* reveals ongoing concerns about significant regulatory burden, including:

- a high percentage of staff (62 per cent) spending more than one-third of their time on administrative tasks;
- more than half of staff (58.9 per cent) considering that NSW staffing ratios had negatively impacted the cost of running a service;
- more than half of staff (51.23 per cent) considering that time spent on administrative tasks was negatively impacting costs to services; and

38 For example, see: Australian Community Children's Services, *Submission 3*, pp. 2 and 5; Andrew Paterson, Chief Executive Officer, Family Day Care Australia, *Committee Hansard*, 12 June 2018, p. 8; Julie Price, Executive Director, Community Child Care Association, *Committee Hansard*, 12 June 2018, p. 36.

39 Prue Warrilow, National Convenor, Australia Community Children's Services, *Committee Hansard*, 12 June 2018, p. 34; Michael Tizard, Chief Executive Officer, The Creche and Kindergarten Association, *Committee Hansard*, 12 June 2018, p. 35.

- a high percentage of staff (61.52 per cent) believing that the NQF was increasing paperwork.⁴⁰

Committee view

2.39 The committee notes current surveys indicating that approved providers perceive a high level of regulatory burden, notwithstanding their support for the objectives of the NQF. The committee believes this must translate to a considerable amount of time and money being spent on compliance. The Department has not recently reported any significant regulatory savings in ECEC, although current reforms are expected to deliver over \$100 million in savings. The committee believes that these savings should be reported in the Department's next annual report for the Deregulation Agenda.

Recommendation 5

2.40 The committee recommends that the Department of Education and Training provide a detailed annual report to the Department of Jobs and Small Business, to provide greater transparency about red tape reductions in early childhood education and care.

Fee assistance and the Child Care Subsidy

2.41 The CIS argued that the Australian Government, which provided 81.6 per cent of total government ECEC expenditure in 2016–2017,⁴¹ should be strongly motivated to minimise unnecessary and/or ineffective regulation, as these contribute to the rising cost of child care.⁴²

2.42 According to Australian Childcare Alliance, there is too much regulation which affects childcare affordability: 'regulatory requirements come at a cost that [is] inevitably passed onto families reducing affordability'.⁴³ CIS added that these amounts also contribute to the increasing cost of Australian Government fee assistance,⁴⁴ which in 2016–2017 amounted to \$7.7 billion.⁴⁵

40 Australian Childcare Alliance (NSW), '2017 Annual Early Learning and Childcare Services Survey', <https://nsw.childcarealliance.org.au/news/256-2017-annual-early-learning-childcare-services-survey> (accessed 8 August 2018). Also see: Australian Childcare Alliance, *Submission 7*, p. 12, which illustrated the compliance cost with respect to documenting NQF compliance in one service: 35 per cent of its annual payroll (\$565 084).

41 Productivity Commission, *Report on Government Services, 2017*, 1 February 2018, p. 3.4, <https://www.pc.gov.au/research/ongoing/report-on-government-services/2018/child-care-education-and-training/early-childhood-education-and-care> (accessed 8 August 2018).

42 Eugenie Joseph, Senior Policy Analyst, Centre for Independent Studies, *Committee Hansard*, 12 June 2018, p. 1. Ms Joseph noted that, despite fee assistance, parents' out-of-pocket costs are also rising.

43 Australian Childcare Alliance, *Submission 7*, p. 3.

44 Centre for Independent Studies, *Submission 13*, p. [9].

45 Productivity Commission, *Report on Government Services, 2017*, 1 February 2018, p. 3.4, <https://www.pc.gov.au/research/ongoing/report-on-government-services/2018/child-care-education-and-training/early-childhood-education-and-care> (accessed 8 August 2018).

Fee assistance policy objectives

2.43 Australian Government fee assistance is based on two policy objectives—namely, workforce participation and quality ECEC.⁴⁶ Ms Page from ECA commented on a third objective—the reduction of inequity and vulnerability—which she argued was the primary basis for ECEC regulation:

Children who are coming from a disadvantaged background will benefit the most from quality early childhood education and care...It's not necessarily that parents are choosing between staying at home and providing a safe, rich learning environment for children or going to work and those children going to a safe, rich learning environment somewhere else. There are a host of other circumstances that children can be left in that are very undesirable and very unsafe, and that's why we provide a regulated system of education and care in this country.⁴⁷

2.44 Dr Emma Cannen, Policy and Stakeholder Manager, Big Steps, United Voice, argued that fee assistance produces multiple economic benefits:

There are different ways that you can contribute to the economy. There is firm evidence that maternal workforce participation in this country is very low compared to other OECD countries, and it does increase returns on the economy...But there are broader returns on investment to the economy, regardless of the question of maternal participation, because of the productivity and children's outcomes. When you have children that are performing better on NAPLAN and PISA tests, they go on to have better jobs and have continuous input into the economy. There is also less strain on the taxpayer in relation to health, training, education and even the criminal justice system.⁴⁸

2.45 Other submitters and witnesses—such as Australian Community Children's Services (ACCS) and Community Child Care Association (CCCA)—agreed that ECEC benefits are experienced across a life cycle.⁴⁹ Their submissions referred to

46 Australian Government, *Guides to Social Policy Law, Family Assistance Guide*, 2 July 2018, section 1.2.6, <http://guides.dss.gov.au/family-assistance-guide/1/2/6> (accessed 8 August 2018). Also see: Jeff Willing, Branch Manager, Payment Policy and Implementation Branch, Department of Education and Training, *Committee Hansard*, 12 June 2018, p. 51.

47 Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 12 June 2018, p. 28. Also see: p. 30.

48 Dr Emma Cannen, Policy and Stakeholder Manager–Big Steps, United Voice, *Committee Hansard*, 12 June 2018, p. 21. Also see: Dr Emma Cannen, Policy and Stakeholder Manager–Big Steps, United Voice, answers to question on notice, 3 July 2018 (received 4 July 2018), who summarised the returns on investment identified in Pascoe, S. and D. Brennan, *Lifting our game, Report of the Review to Achieve Educational Excellence in Australian Schools Through Early Childhood Interventions*, December 2017, p. 55.

49 Australian Community Children's Services, *Submission 3*, p. 2; Community Child Care Association, *Submission 4*, p. 2. Also see: Early Childhood Australia, *Submission 11*, pp. 4–5; Michael Tizard, Chief Executive Officer, The Creche and Kindergarten Association, *Committee Hansard*, 12 June 2018, p. 44; Gabrielle Sinclair, Chief Executive Officer, Australian Children's Education and Care Quality Authority, *Committee Hansard*, 12 June 2018, p. 46.

economic modelling conducted by Price Waterhouse Coopers (2014), whose key findings about returns on investment were reiterated by Ms Page from ECA:

By investing more in early childhood education and care and increasing children's participation in early childhood education and care the Australian economy stands to benefit by \$6 billion from increased workforce participation, particularly amongst women. We stand to benefit by another \$10.3 billion from improving children's transition to school—making sure that children are ready for learning, that they're inquisitive, confident learners and that they are ready to make that important transition. But the biggest gain was an estimated \$13 billion that we stand to gain from addressing vulnerability amongst children who may not have had the best start in their early years and can improve through accessing a quality early childhood program.⁵⁰

2.46 Ms Page argued there are social and economic benefits for women in high-income families returning to the workforce:

Where we invest a small amount generally to encourage high-income families to access the universal system of early childhood education and care we get well and truly more money back than we invest, through the taxes paid through increased workforce participation...[Also, staying at home] has significant impact down the track on women's superannuation savings, on women's capacity to earn later in life and on separated families, where there is then an inequity between one parent, who's been out of the workforce for a significant period of time, and the other parent, who hasn't.⁵¹

2.47 Elizabeth Death from the Early Learning and Care Council of Australia (ELACCA) and Dr Cannen from United Voice concurred that fee assistance is a factor in high-income families' decision to return to work.⁵² Linda Davison, Chairperson of CCCA, added:

I run a service and I know that there are families who are currently using our service who are thinking very carefully about whether one or other of the parents will return to work, and in what capacity, very much on the basis of the fact that they will no longer receive any childcare subsidy at all. Some of these women—they are mostly women—are highly skilled women in very senior positions. Yes, they are high-income earning families, but they're also families who have high expenses.⁵³

50 Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 12 June 2018, p. 29.

51 Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 12 June 2018, p. 29.

52 Elizabeth Death, Chief Executive Officer, Early Learning and Care Council of Australia, *Committee Hansard*, 12 June 2018, pp. 37–38; Dr Emma Cannen, Policy and Stakeholder Manager–Big Steps, United Voice, *Committee Hansard*, 12 June 2018, p. 18.

53 Linda Davison, Chairperson, Community Child Care Association, *Committee Hansard*, 12 June 2018, p. 38.

2.48 The committee notes the following findings of the *Lifting Our Game, Report of the Review to Achieve Educational Excellence in Australian Schools Through Early Childhood Interventions* report (Figure 2.3).

Figure 2.3: Economic effects of quality early childhood education

Outcome	Timing of effect	Who accrues the benefit?		
		PARTICIPANTS	GOVERNMENTS	SOCIETY
Reduced child abuse and neglect	Childhood	+	+	
Improved school readiness	Adulthood	(+)	(+)	
Higher achievement tests	Adulthood	(+)	(+)	
Reduced special education use	School years		+	
Reduced grade retention	School years		+	
Increased high school graduation	Adulthood	(+)	+	
Increased higher education attainment	Adulthood	-	-	
Higher earnings and taxes paid	Adulthood	+	+	
Reduced crime	Adolescence to adulthood		+	+
Reduced welfare use	Adolescence to adulthood	-	+	
Improved health and health behaviours	Adolescence to adulthood	+	+	+

Source: Phillips, D, et al. (2017).

Note: + denotes a favourable effect; - denotes an unfavourable effect. Parentheses indicate monetisable effect is indirect, i.e. through linkages to later outcomes.

Source: Pascoe, M. and D. Brennan, *Lifting Our Game, Report of the Review to Achieve Educational Excellence in Australian Schools Through Early Childhood Interventions*, December 2017, p. 55.

Increased regulation

2.49 Submitters and witnesses commented that the new funding arrangements have markedly increased the administrative burden for approved providers and families.⁵⁴ ELACCA commented, for example:

The implementation of this [reform] requires major system reform for Government, providers and families prior to and post 2 July 2018 and involves lengthy, complex and costly change management...the Office of Best Practice Regulations (OBPR) noted on review of the RIS that there will be significant impacts on the early childhood education and care

54 For example: Alys Gagnon, Executive Director, The Parenthood, *Committee Hansard*, 12 June 2018, p. 23; Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 12 June 2018, p. 31.

market and recommended a more in-depth analysis of the expected net benefits.⁵⁵

2.50 Mr Tizard described how implementation of the Child Care Subsidy has impacted families and services in the C&K community:

It's having an enormous impact, in terms of readiness. There's a new time and attendance system—we're installing an electronic check-in system so that we can record time of arrival and time of departure. There's enormous work to vary our enrolment forms so that they meet the compliant written agreement requirements. We are educating our educators about the many aspects of the new system. We are working with our families, in terms of getting them ready and getting them onto myGov. There's been advertising, but a lot of families rely on directors.⁵⁶

2.51 Mr Tizard explained that the changes will also affect affordability and accessibility, and potentially affect the diversity of current ECEC services:

We are having a look at what impact it's going to have on the utilisation of our services. We're concerned about services in disadvantaged areas where eligibility may drop if they don't meet the activity test. We're concerned about the large number of kindergartens and the fact that families may exit kindergarten to go into long day care because it is cheaper. There are many tentacles to this new package for an organisation like C&K.⁵⁷

Affordability and accessibility

2.52 There are three factors that determine a family's level of Child Care Subsidy (combined family income, activity test and service type). Alys Gagnon, Executive Director of The Parenthood, expressed concern that not all families will benefit from Child Care Subsidy due to the new means test. Ms Gagnon said that test might even provide less assistance to children from vulnerable and disadvantaged backgrounds:

Some families will be demonstrably worse off, around a quarter of a million families across all income brackets...this will mean they absorb the financial hit. A parent, probably the mother, will stop working or will cut their hours at work or they will withdraw their child from early learning... it is the children who derive the greatest benefits from early learning—

55 Early Learning and Care Council of Australia, *Submission 12*, p. 1. Also see: Australian Childcare Alliance, *Submission 7*, p. 4; United Voice, *Submission 9*, p. 2; Early Childhood Australia, *Submission 11*, p. 8; Department of Prime Minister and Cabinet, <https://ris.pmc.gov.au/sites/default/files/posts/2016/02/Jobs-for-Families-Child-Care-Package-RIS-OBPR-Assessment-Advice-1.pdf> (accessed 8 August 2018).

56 Michael Tizard, Chief Executive Officer, The Creche and Kindergarten Association, *Committee Hansard*, 12 June 2018, p. 45.

57 Michael Tizard, Chief Executive Officer, The Creche and Kindergarten Association, *Committee Hansard*, 12 June 2018, p. 45. Also see: Jeff Willing, Branch Manager, Payment Policy and Implementation Branch, Department of Education and Training, *Committee Hansard*, 12 June 2018, p. 51, who commented on the larger number of children now attending childcare with a preschool program, compared to preschool.

those from disadvantaged backgrounds—who are most likely to be withdrawn.⁵⁸

2.53 Other witnesses expressed concern about families' readiness for Child Care Subsidy due to the administrative requirements for the transition.⁵⁹ Ms Death of ELACCA said:

We've got families who don't necessarily always have access to the internet—they need to have a myGov account—and they have a whole range of other issues there that provide hurdles, and often it's the most vulnerable families who can't jump those hurdles faster.⁶⁰

2.54 The committee notes that, as at 2 July 2018, more than one million families had transitioned to the Child Care Subsidy and that there will be a three month grace period for approximately 51 000 families who experienced difficulties transitioning by that date.⁶¹

Attendance reporting and the Activity Test

2.55 Several submitters and witnesses voiced concerns about approved providers' and parents' ability to comply with various administrative requirements that require ongoing time and financial investment.⁶² Two particular concerns were identified: the need to report actual attendance; and the Activity Test.

2.56 Australian Childcare Alliance argued that the need to report each child's arrival and departure time would be burdensome and costly to providers:

Those services that choose to manually enter the data will have to allow for a significant number of additional hours each and every week that would be much better served supporting educators and children. In a service with 100

58 Alys Gagnon, Executive Director, The Parenthood, *Committee Hansard*, 12 June 2018, p. 23. Also see: p. 26; Prue Warrilow, National Convenor, Australia Community Children's Services, *Committee Hansard*, 12 June 2018, p. 44, who noted that children might not receive the recommended minimum two days education per week.

59 For example: Alys Gagnon, Executive Director, The Parenthood, *Committee Hansard*, 12 June 2018, pp. 23 and 25; Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 12 June 2018, p. 31; Michael Tizard, Chief Executive Officer, The Creche and Kindergarten Association, *Committee Hansard*, 12 June 2018, p. 35.

60 Elizabeth Death, Chief Executive Officer, Early Learning and Care Council of Australia, *Committee Hansard*, 12 June 2018, p. 37.

61 Senator the Hon Simon Birmingham, Minister for Education and Training, *Interview on Radio National Breakfast with Geraldine Doogue*, Transcript, 2 July 2018, <https://ministers.education.gov.au/birmingham/interview-radio-national-breakfast-geraldine-doogue> (accessed 8 August 2018); Senator the Hon Simon Birmingham, Minister for Education and Training, *Interview on ABC with Kim Landers*, Transcript, 2 July 2018, <https://ministers.education.gov.au/birmingham/interview-abc-kim-landers> (accessed 8 August 2018).

62 For example: The Parenthood, *Submission 1*, p. 1; Australian Community Children's Services, *Submission 3*, p. 4; Australian Childcare Alliance, *Submission 7*, pp. 4–8; United Voice, *Submission 9*, p. 2; Early Learning and Care Council of Australia, *Submission 12*, pp. 2–3; Early Childhood Australia, *Submission 11*, p. 8.

children this will mean that the centre will need to manually enter **1,000 attendance periods per week**. This will increase human resourcing costs for administration staff by **4 to 6 hours a week**.⁶³

2.57 For approved providers who seek a technological solution, ECA observed:

Not only is the implementation of the new scheme causing increased administrative requirements, it also requires a significant financial investment by service providers with the need to purchase/upgrade technology and train administrative personnel.⁶⁴

2.58 In relation to the Activity Test, submitters and witnesses argued that childcare affordability will be affected by parents having to meet a three-stepped activity test. Parents will only receive subsidised child care for the number of hours engaged in a recognised activity each fortnight (Figure 2.4).⁶⁵

Figure 2.4: Child Care Subsidy, Activity Test, per fortnight

Step	Hours of activity*	Maximum number of hours of subsidy per child*
1	8 hours to 16 hours	36 hours
2	More than 16 hours to 48 hours	72 hours
3	More than 48 hours	100 hours

Source: Department of Education and Training, 'Child Care Subsidy – activity test', <https://www.education.gov.au/child-care-subsidy-activity-test-0> (accessed July 2018).

2.59 ECA emphasised that this is not conducive to achieving the best developmental outcomes for children:

ECA believes that there is a very strong case for providing all children with access to at least two days a week of early learning, regardless of their parents' workforce participation, to achieve their best development outcomes...the benefits are significant and ongoing for children from disadvantaged backgrounds in particular. Two days per week can also provide stability for families supporting employment preparation, searching and transition and would make the CCS system simpler for parents to

63 Australian Childcare Alliance, *Submission 7*, p. 6 (emphasis in original).

64 Early Childhood Education, *Submission 11*, p. 8. Also see: Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 12 June 2018, pp. 31–32; Elizabeth Death, Chief Executive Officer, Early Learning and Care Council of Australia, *Committee Hansard*, 12 June 2018, pp. 36–37, who noted that small approved providers cannot absorb the cost of a technological solution.

65 For example: Eugenie Joseph, Senior Policy Analyst, Centre for Independent Studies, *Committee Hansard*, 12 June 2018, p. 5. Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 12 June 2018, pp. 31–32.

navigate, especially though who are already managing complexity in regards to their employment situation.⁶⁶

2.60 ELACCA and CCCA described the new funding arrangements in terms of missed opportunities and, similar to ECA, stated that the new system is complex, onerous and will adversely impact children from disadvantaged and vulnerable backgrounds. ELACCA submitted:

The need for documentation of activity, a random audit process and the associated risk of accumulating a debt will likely result in families choosing to withdraw their child from, or not enrol their child in, early learning. As a result, the policy intent of workforce participation and/or early learning outcomes of the CCS in all likelihood will not be achieved. In particular, Australia's children experiencing vulnerability and disadvantage, who in the absence of early intervention will potentially require more costly interventions in the future, are most likely to be denied access. The cost of administering the activity test far outweighs the benefits received, and future costs incurred.⁶⁷

Department response

2.61 A departmental representative indicated that families generally do not use childcare when it is not subsidised: 'it's very expensive without a subsidy'. The officer agreed with Ms Gagnon that families could decrease their children's hours in care but also suggested that the ECEC sector might address this accessibility issue by restructuring their care sessions:

The minister has said quite openly, so it's government policy, that, particularly for the low-income families who get 24 hours per fortnight, yes, that is definitely one 12-hour session per week. It's also two six-hour sessions per week...some in the sector are already considering, for [a young] cohort, offering two six-hour sessions.⁶⁸

2.62 The Department recognised a need to minimise administrative requirements for parents, which is to be achieved through improved data/information sharing and IT systems (Child Care Subsidy System, CCSS). The new systems are intended to

66 Early Childhood Australia, *Submission 11*, p. 8. Also see: Elizabeth Death, Chief Executive Officer, Early Learning and Care Council of Australia, *Committee Hansard*, 12 June 2018, p. 37; Kim Bertino, National Secretary, Australian Community Children's Services, *Committee Hansard*, 12 June 2018, p. 43; Michael Tizard, Chief Executive Officer, The Creche and Kindergarten Association, *Committee Hansard*, 12 June 2018, p. 45, who agreed that every child should have a minimum two days a week of quality ECEC.

67 Early Learning and Care Council Australia, *Submission 12*, p. 3. Also see: Community Child Care Association, *Submission 4*, p. 5; Dr Emma Cannen, Policy and Stakeholder Manager–Big Steps, United Voice, *Committee Hansard*, 12 June 2018, pp. 20–21.

68 Jeff Willing, Branch Manager, Payment Policy and Implementation Branch, Department of Education and Training, *Committee Hansard*, 12 June 2018, p. 54.

provide 'a simple and easy user interface...and significant time saving benefits...when applying for fee assistance and reporting change in circumstances'.⁶⁹

2.63 The Department assured the committee that it would be closely monitoring implementation of the Child Care Subsidy. Further:

A Post Implementation review is planned, and will be completed within 2 years following implementation. This review will, amongst other things, examine any regulatory burden of the package against the benefit for families.⁷⁰

Committee view

2.64 The committee acknowledges that current Australian Government ECEC policy supports multiple policy objectives. The committee recognises the importance of these objectives and the evidence indicating that there are significant returns on investment in ECEC by promoting maternal workforce participation among families from low socio-economic backgrounds and the development of children from disadvantaged backgrounds. Nonetheless, the committee agrees with the CIS's overarching suggestion that unnecessary and/or inefficient red tape should be identified and eliminated.

2.65 The committee heard that implementation of the Child Care Subsidy is causing some difficulties for the ECEC sector, as well as Australian families using services. The committee is concerned that there have been transitional issues for a significant number of families, who might now be impacted by issues of affordability and accessibility. Further, the committee has heard that several administrative requirements will be burdensome and ongoing, an alternative to but not a simplification of the previous arrangements.

2.66 The committee notes that the Department will be monitoring the situation and encourages it to proactively address issues as they arise, including through consideration of the matters raised in this report. The committee expects to see more thorough consideration and reduction of red tape throughout the ECEC sector in the Department's next annual report in pursuance of the Deregulation Agenda.

2.67 The committee is not persuaded that Australian Government fee assistance is sufficiently well targeted, notwithstanding recent reforms. If the objective of assistance is to increase maternal workforce participation, it should be tailored to the demographic and occupational groups least likely to return to work without assistance, and from which the economy receives the most benefit. If the objective is to assist disadvantaged children, this should also be reflected in the targeting. The committee heard no evidence that these aspects had even been considered.

69 Department of Education and Training, *Submission 10*, p. 12. Also see: pp. 7 and 15, which noted that the Child Care Subsidy System interfaces with other government and regulatory IT systems, to facilitate the sharing of information.

70 Department of Education and Training, *Submission 10*, p. 17.

Recommendation 6

2.68 The committee recommends that the Department of Education and Training and the Department of Jobs and Small Business report in greater detail on the regulatory effect of implementing the Child Care Subsidy, including in relation to Activity Test.

Recommendation 7

2.69 The committee recommends that the Australian Government review the objectives of fee assistance to ensure that it is actually targeting maternal workforce participation and children from disadvantaged backgrounds.

Concluding comment

2.70 Some stakeholders suggested that the committee might find it more useful to conduct its inquiry after implementation of the Child Care Subsidy on 2 July 2018. However, the committee is of the view that there are a broader range of regulatory issues meriting examination, as highlighted in this report. The committee trusts that its findings and recommendations assist the Department to finesse the childcare reforms and provide Australian families with a better ECEC system that more fully supports the viability of the sector.

Senator David Leyonhjelm

Chair

